Canada. Finance, Standing Committee on (Senate), 1958

1958

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE

on the Report of Central Mortgage and Housing
Corporation for the fiscal year ending
December 31, 1957.

No. 1

THURSDAY, JUNE 5, 1958

The Honourable C. G. Hawkins, *Chairman*

WITNESS

Mr. Stewart Bates, President, Central Mortgage
and Housing Corporation.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1958

58 40-6—1

THE STANDING COMMITTEE ON FINANCE

The Honourable C. G. Hawkins, *Chairman*

The Honourable Senators

Aseltine
Baird
Barbour
Beaubien
Bouffard
Burchill
Campbell
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Dupuis
Euler
Farris
Fraser
Gershaw
Golding
*Haig
Hawkins
Hayden
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Pratt
Quinn
Reid
Roebuck
Robertson
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Turgeon
Vaillancourt
Vien
White
Woodrow—41

(Quorum 9)

**ex officio member.*

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate

TUESDAY, May 20, 1958.

With leave of the Senate,

The Honourable Senator Aseltine moved, seconded by the Honourable Senator Pearson—

That the Report of Central Mortgage and Housing Corporation for the fiscal year ended the 31st of December, 1957, be referred to the Standing Committee on Finance for consideration and report.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MACNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, June 5, 1958.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.30 a.m.

Present: The Honourable Senators Hawkins, *Chairman;* Beaubien, Burchill, Crerar, Dupuis, Horner, Leonard, Pearson, Quinn, Reid, Robertson, Smith (*Queens-Shelburne*), Taylor (*Norfolk*), Turgeon, White and Woodrow.—16.

In attendance: the official reporters of the Senate.

The Committee proceeded to consideration of the order of reference of May 20th, 1958.

Mr. Stewart Bates, President, Central Mortgage and Housing Corporation, was heard.

At 12.30 p.m. the Committee adjourned until Thursday next, June 12th, at 10.30 a.m.

Attest.

JOHN A. HINDS,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, THURSDAY, June 5, 1958.

EVIDENCE

The Standing Committee on Finance, to which was referred the report of the Central Mortgage and Housing Corporation for the fiscal year ended 31st December, 1957, met this day at 10.30 a.m.

Senator Hawkins in the chair.

The CHAIRMAN: Gentlemen, we have a quorum. Will you please come to order.

It will be recalled that at the organization meeting the question was brought up as to the adequacy of the terms of reference. Following the meeting the question was referred to the Steering Committee, and Senator Beaubien, Senator White and myself had a talk with the Government leader, Senator Aseltine. The leader thought that the terms of reference were wide enough to cover most everything we would need. However, he did say that if we had need for wider terms, to come back and he would facilitate our having them approved.

You will recall that the terms of reference, as moved by Senator Aseltine, on May 20th last were as follows:

> That the report of the Central Mortgage and Housing Corporation for the fiscal year ended the 31st December, 1957, be referred to the Standing Committee on Finance for consideration and report.

In speaking to that motion, the leader said:

> I would like to say a word on this motion now. It appeared last night from the debate which we had on Bill C-10, to amend the National Housing Act, 1954, that a number of senators would like to have the whole matter of housing fully investigated with respect to the past, present and future, and to have the National Housing Act itself looked into. The purpose of my motion is to give the work of this inquiry to the Standing Committee on Finance, which would call officials of the Central Mortgage and Housing Corporation and any other witnesses it might desire to hear.

I think these terms are broad enough, but I have had a talk with the Clerk of the Senate, who said that he thought we would first have to know what further powers we needed before we attempted to amend the terms of reference. If we reach that stage, we could bring a report to the chamber and ask for the authority we required. I gave this information to the Steering Committee, and it was decided that we should carry on as we were until we found what further authority we might need. I trust that action meets with your approval.

We have with us this morning Mr. Stewart Bates, President of the Central Mortgage and Housing Corporation, Mr. J. S. Hodgson, Liaison Officer of the Corporation, and Mr. K. C. Joynes, Executive Director of the Corporation. It will be recalled that at the organization meeting I said that Mr. Bates had

indicated his willingness to prepare a brief in connection with this matter. He is now here, and I will ask him to deliver his prepared material. Further, I would ask honourable senators to refrain from asking questions until Mr. Bates has completed his presentation.

Mr. Stewart Bates (President, Central Mortgage and Housing Corporation):

Gentlemen, I was not quite sure what you would require of me, and so I prepared what I thought would be a lead for you into this problem of housing, and also the Crown corporation. In fact, our annual report covers two distinct Acts: the National Housing Act and the Central Mortgage and Housing Corporation Act. I thought, therefore, that my statement to you this morning should be twofold, one covering the operation of the Corporation, in case you wish to investigate the Crown corporation to some extent, and, secondly, the part dealing with housing itself. So that as a lead I have here the two parts. I might say, gentlemen, that we are very happy to have the opportunity to come before you, as often as you please, because we are devoted to this problem, and to have a group such as you interest yourselves in it is the most desirable thing that can happen as far as we are concerned.

Mr. Chairman, my I proceed; and I think, gentlemen, you might just wish me to read this, and read not too quickly.

Mr. Chairman, may I be permitted at the outset to express my appreciation of the opportunity you have afforded me to appear as a witness before this committee. If it is your pleasure, I would like to make an introdutory statement on the Corporation as an instrument of Government, on its physical organization, on its purpose and functions and on housing in Canada in its broadest terms. I will then try to the best of my ability to answer any questions and to amplify my statement in any way that you may wish.

The position of Crown corporations in our Governmental structure is not easy to analyse. They present, as a group, more dissimilarities than points of likeness in origin, purpose and modes of operation. I mean, for example, that a Crown corporation like the Canadian National Railway must, by definition, be given the powers and freedoms that are accorded to the Canadian Pacific Railway almost, because it has to compete with that institution. An organization like Polymer, on the other hand, something that is fairly remote from any citizen, can run itself in a fairly independent fashion. A corporation like the Canadian Broadcasting Corporation or Central Mortgage, which finally gets before households with all the problems of wet basements and doors that won't close, is quite clearly much more political in its total connections, much closer to the political scene. Every member of Parliament has some complaint brought to him by a potential or existing home owner. Therefore the contrast between, shall we say, Atomic Energy, and an operation like ours is very great indeed, in terms of relationship with the Government, with the minister and with the public. Some are direct agencies of the Government, attached to a Government department, while others are proprietary and governed by a Board of Directors responsible to the Government. Some obtain their funds in the form of Government loans, others receive statutory appropriations from Parliament.

In the case of Central Mortgage and Housing Corporation, a Board of Directors manages our affairs and conducts our business; we receive funds in each of the ways I have mentioned, through particular sections of the statutes under which we operate.

One of these statutes is the Central Mortgage and Housing Corporation Act, 1945 which established the Corporation. The others are the National Housing Act, 1954 and the preceding Housing Acts of 1935, 1938 and 1944.

The Annual Repart of the Corporation is a blended review of operations under all the Acts. Because most aspects of housing come within the fields of property and civil rights—a subject that is, of course, reserved under the British North America Act to provincial jurisdiction—the National Housing Act provides for encouragement of the investment of funds for housing production rather than direct control of the production or use of the nation's housing stock. Central Mortgage and Housing Corporation is the Crown agency responsible for carrying out all functions of the Federal Government in the housing field. These are based almost entirely upon the provisions of the National Housing Act.

In enacting its housing legislation, Parliament has defined the areas in which the Corporation may operate, has provided the necessary funds, has imposed overall limitations, has generally expressed terms of a dollar volume of business beyond which the Corporation may not proceed without further Parliamentary sanction and has accepted liability for the Corporation's actions.

Broadly speaking, the Corporation acts in an advisory capacity to the Government and is responsible to Parliament through the Minister of Public Works. Approval by the Minister or the Governor in Council is required on all policy matters and all important financial items.

Central Mortgage and Housing Corporation consists of "the Minister and those persons who from time to time comprise the Board of Directors."

I think you will find that in most Crown corporations the minister is not included. That is one difference between us and others,—that in the Act itself the minister is defined as part of the corporation.

The Board of Directors consists of a President and Vice-President and eight other members—three of whom are selected from the public service of Canada. The remaining five are appointed from outside the public service and in practice they have been selected as representatives of various facets of Canadian endeavour, including the fields of architecture, social service and labour. The President and Vice-President hold office for a term of seven years.

The three directors selected from the public service are appointed by the Governor in Council and hold office during pleasure. The five directors selected from outside the public service are appointed by the Minister, with the approval of the Governor in Council, and hold office for a term of three years.

Our board is made up of eight people: three public servants appointed by the Government, five outsiders appointed by the minister and approved by the Government.

There are two appointments made by the board itself: those are the appointments of the president and the vice president, but these have to be confirmed by the Governor-in-Council. So in effect the Governor-in-Council has a close control over the total formation of the board.

The statute provides that there shall be an Executive Committee of the Board of Directors consisting of the President, Vice-President and two other directors selected by the Board.

Section 17 of the Central Mortgage and Housing Corporation Act provides for an authorized capital of $25 million, which was paid to it by the Minister of Finance when the Corporation started operations on January 2, 1946. Under the same statute, the Corporation may establish a reserve fund of $5 million out of its profits and, after building up this reserve, is required to pay, and has paid, all its profits to the Receiver General. The Corporation is required to pay income tax.

Section 31 of the Central Mortgage and Housing Corporation Act requires that the Minister shall, with the approval of the Governor in Council, appoint two auditors to hold office for a term not exceeding two years, to audit the affairs of the Corporation.

You recall, gentlemen, that under the Financial Administration Act of 1951 the Auditor General of Parliament was given power to audit all Crown corporations. In our case he has approved the appointment of outside auditors, each for two years, to act on his behalf.

The Corporation also has statutory borrowing powers. The legislation authorizes the Minister to advance to the Corporation from time to time out of the Consolidated Revenue Fund funds for purposes specified in the National Housing Act and the Central Mortgage and Housing Corporation Act. In return, the Corporation gives to the Minister debentures undertaking to repay such advances with interest.

The income of the Corporation is derived from interest earned on loans made under the Housing Acts, property rentals, interest earned on the Corporation's share of Federal-Provincial agreements, interest earned on insured mortgage loans, fees earned for services rendered to Government agencies and net profits realized on the sale of real estate.

These are fully spelled out in our financial statement. In the covering document that I have prepared for you today I have not gone into any detail with respect to this financial statement, but of course I would be happy to do so if you so wish.

In its early years, the Corporation was one of the Crown Corporations that had little to do with the public directly. It dealt with lending institutions according to a well-defined pattern set out in the statute and the Regulations. It enjoyed considerable autonomy. In 1947, two extensions of function increased the Corporation's contact with the public: by taking over Wartime Housing Limited, the Corporation became landlord to 17,000 tenants, a number that soon increased to 50,000 with the build up of Veterans' housing at the end of the war. Authorization was also given in that year to make direct loans. Since 1935, governmental participation had been in the form of a share of each loan jointly with a lending institution. The 1947 amendment enabled the Corporation to make the full amount of the loan in cases where mortgage financing was not otherwise available.

In 1949, an amendment to the National Housing Act made the corporation an agent of the Government, subject to Federal Government and Governor in Council approval, in negotiating Federal-Provincial housing and land assembly agreements. In addition, the Defence Production Act assigned the building of Department of National Defence housing to the Minister of Public Works, an authority that is, in turn, delegated to the Corporation.

I believe, Mr. Chairman, that my statement to this point may serve for the moment as a broad description of the nature of the Corporation, its management and its relationship with the Government and with Parliament. I would now like to turn, if I may, to the physical deployment of the Corporation and its personnel throughout the country.

By the very nature of its business, the Corporation enters into contractual relationships on a day-to-day basis with many individuals and organizations from one coast to the other. To facilitate these operations and to provide the speed and quality of service that the public has come to expect in housing matters, it has been necessary to establish a fairly extensive field office system.

In discussing our physical structure, it is perhaps proper to start with Head Office. This, as you know, is located in Ottawa on the Montreal Road. Then, there are five Regional Offices, one each in Halifax, Montreal, Toronto, Winnipeg and Vancouver. Members of the Committee will have noted on the inside back cover of the annual report the location of other field offices.

Under our presently constituted form of organization, head office and Government is responsible for "what" our field offices do; while the regional offices ensure that the duties are properly carried out. Including a head office strength of 520, our total staff numbers 1,889 persons. Three years ago it numbered 2,350 persons. I bring this to your atention, honourable senators, to indicate that although our business has increased in three years we have been able to effect certain economies in operation. This staff includes compliance inspectors, appraisers, plans examiners, supervisory staff, clerical personnel and technicians, including architects and engineers.

The Corporation is, for all purposes, an agent of Her Majesty and the powers it has may be exercised only as an agent of Her Majesty. There is only one exception—the employment of personnel.

We are free to hire or fire personnel. We do not come within the Civil Service Act nor do we come within the Superannuation Act of the federal Government. I might say that that freedom of hiring and firing is not quite so free as you might imagine. As a corporation in Ottawa, we have pretty well got to follow governmental classifications whether it is with respect to stenographers, architects or engineers. We are pretty well committed to government classifications. I think I may say in my three years with the Corporation I am only aware of two civil servants who have resigned from the Government to come to the Corporation. I am one of them. On the other hand, I am aware of hundreds of resignations by employees of the Corporation who have gone to the Civil Service. I think this is an indication that we are not overpaid at our end of the field. However, this is just a commentary break in passing. I think the employment of personnel is most important in permitting re-organization. We could not have re-organized as we did and dispensed with 500 personnel had we been under the Civil Service Commission.

Senator CRERAR: Hear, hear.

Mr. BATES: This could not have been done. These changes are more definite than the framework which constitutes the Civil Service. I would say, in passing, that we do regard ourselves as part of the public service of Canada.

Members of the Committee will have read on Page 2 of the Annual Report a very brief summary of the specific functions of Central Mortgage and Housing Corporation. Perhaps it would be helpful, Mr. Chairman, if I now amplified this statement of responsibilities.

The first of these in the order shown in the report is to insure mortgage loans on new housing made by private lenders—banks, life insurance and trust and loan companies and other approved lenders. This is an arrangement that was introduced with the National Housing Act, 1954. It was at the same time, and in an effort to encourage the flow of private mortgage funds into new housing, that the chartered banks became, for the first time in Canada, approved lenders under the Act.

I have continued here with a couple of paragraphs to try and define for you what an insured loan is. Some of you will know this but perhaps I could go through it anyway.

Perhaps I can best define an insured loan by describing quickly the procedures followed. An individual home-owner applicant may go to an approved lender of his choice with the plans and specifications for a specific house on a specific lot. If the lender is satisfied with the proposal and has funds available, he assumes responsibility for ensuring that the borrower is credit-worthy. He then submits an application to the local office of the Corporation. The lot is inspected by us, the plans are examined to ensure that they comply with the building standards and an evaluation of the proposed property is made. As of 1958, preparation of the building standards became a responsibility of the Division of Building Research, National Research Council, instead of the Corporation.

We find ourselves up to this point being in the invidious position of being the legislator. That is, we were making the standards and we were the policemen to police these standards and we were the judges to determine whether the standards were properly complied with or not. So we have been able to break out of this unpleasant situation and we have passed the legislative function of the making of standards over to the National Research Council, and we have become merely the policemen of the standards now.

Based on the evaluation or appraisal, a loan amount is determined from the formula set out in the statute and the approved lender is informed that the Corporation is prepared to insure a loan in that amount. If the borrower finds the loan amount acceptable, physical inspections are made by the Corporation during construction and, if mortgage advances are to be insured, the lender is advised of the amount and timing of such advances.

It should be emphasized that the funds used for an insured loan are those of the lender—that is, banks, life insurance and trust and loan companies and other approved lenders—but the lender is substantially insured against loss by the Government. The borrower pays an application fee in cash of $35. That is supposed to cover our cost of the appraisal and the inspection of the house during construction. It costs us about $120 to do this job. An insurance fee is charged against the mortgage account.

This fee makes up the mortgage insurance fund that was referred to in the discussions of the Senate, and as set out in our statement. We are the trustees of that fund. It now amounts to over $30 million. The fee, 2 per cent, is paid by the borrower but the insurance is for the lender in case something goes wrong. If there is a foreclosure the fund is used to recoup the lender. He claims on the Corporation for his insurance.

A house builder may also obtain insured loans through an approved lender of his choice and the procedure is precisely the same until a purchaser comes forward. At that point, the purchaser assumes the mortgage obligation and the builder is released from the covenant. Similarly, rental accommodation may be financed by an insured loan. Here, the amount of loan is based on 80% of the lending value and the maximum period of repayment is 25 years.

It is under the insured loan arrangement that the bulk of National Housing Act loans has been made since 1954—at least until last year when private funds were flowing less freely.

Interest on an insured loan may be at any rate agreed to by the lender and the borrower but must not presently exceed 6% per annum. The amount of loan is based on 90% of the first $12,000 of lending value—the Corporation's evaluation,—together with 70% of the balance of lending value. The maximum loan for a single family dwelling is $12,800. Loans are repayable in monthly instalments, together with interest, over a period of 25 to 30 years.

Another function of the Corporation is to provide guarantees to banks on loans made for home improvement purposes and to life insurance companies and private investors of their returns from moderate rental housing projects built by them.

A home improvement loan is intended to finance the improvement of existing houses. The loan may be applied to the cost of labour, materials and equipment for any of a wide variety of alterations, repairs and permanent additions. The maximum loan available is $4,000 for a one-family dwelling. Loans are repayable in monthly instalments, together with interest, in not more than 10 years. The current rate of interest is 6% and the lender is required to collect from the borrower an insurance fee of 1% of the amount of the loan.

Section 14 of the National Housing Act authorizes the Corporation, under certain conditions, to guarantee for a premium, returns of private investors from moderate rental housing projects. While this section is technically operative, the related loans under Section 15 are rarely available through approved lenders and the Government has instructed the Corporation that "direct" loans are not to be approved in this category.

The Corporation is also authorized to offer guarantees to life insurance companies for low cost or moderate cost rental housing projects or to institutional investors for land development. There has been no activity under these headings in recent years.

A third function of the Corporation is to make mortgage loans on low and moderate rental housing projects to prospective home-owners unable to obtain loans from private NHA lenders; and through agents of the Corporation to borrowers for low cost housing.

Under Section 16 of the National Housing Act, the Corporation, with the approval of the Government, may make a loan to a limited-dividend housing company to assist in financing the construction of a low rental housing project. A loan under this section may not exceed 90% of lending value. The present interest rate is 4¼%. The period for repayment may not exceed the useful life of the project and, in any case, may not be for more than 50 years. The borrower enters into an operating agreement, with the Corporation fixing rentals, income ranges of eligible tenants and the establishment and use of reserves.

Section 40 of the National Housing Act authorizes the Corporation to make any type of loan that may be made by an approved lender under Part I of the Act where, in the opinion of the Corporation, a loan is not available to a satisfactory applicant through an approved lender. These loans are made on the same terms as if they had been made by approved lenders. This refers to parts of the country where there are no lenders, such as small towns and rural areas.

In 1957, a shortage of mortgage funds from approved lenders under the National Housing Act developed and, in spite of a substantial increase in the Corporation's direct lending operations, the volume of new residential construction declined and the building of smaller and lower priced homes suffered the most. A reduced rate of approvals also forecast a drop in construction during the winter of 1958.

To meet this situation, the Prime Minister announced on August 21, 1957 that the Government would make available about $150 million for small home loans in all parts of the country. This amount was augmented by an additional $150 million in December. The funds were made available to borrowers through the approved lenders acting as agents of the Corporation. In other words, federal Government funds were used to supplement the flow of private mortgage financing but the loans were placed by approved lenders for a fee. Loans were approved for home-owner applicants, builders and rental investors. Builders were limited to 25 loans in each area in which they were bona fide operators and rental investors were restricted to 100 units each. The so-called agency arrangement was suspended on April 10 because the funds provided by Parliament were virtually exhausted.

As members of the Committee will recall, a further amount of $350 million was recently provided by amendment to Section 22 of the National Housing Act. It is the Government's intention—and the Corporation has been so instructed—that these funds be placed directly by the Corporation on a residual basis—that is, we are now concerned primarily with supplementing the supply of mortgage money for low cost housing in areas where normal lending facilities are not considered to be adequate.

For home-owner applicants, these areas include centres with populations in excess of 55,000; and a bona fide builder may apply in any area, regardless of population. Many of the limitations of the agency arrangement have been carried over for the present, including requirement that the aggregate of Corporation loans and loans obtained under the 1957-58 agency arrangement may not exceed 25 units for any one builder. That is, the builder is still under the 25-unit limit put on last September.

Applicants for Corporation loans will be required to obtain refusal letters from at least two approved lenders normally expected to make loans in the area.

In other words, we stand as a residential lender anywhere in the country. If a home owner or builder comes to us with a refusal letter from two approved lenders, we stand in a residual position ready to lend, if he is credit worthy and if the project is satisfactory. In other words, the agency arrangement is for the present cancelled, and we have become a direct lender—not through the agency operation, but directly as a residual lender; and the 25-unit limit is maintained on the builders as at present. It may well be modified by August in preparation for winter work. This may be reconsidered by the Government if there seems to be a demand for rental accommodation, and if it seems advisable to consider augmenting the next winter program; but at this moment there is an adequate flow of mortgage funds going to builders, and we stand ready with part of these new funds we have available to step in every instance where a loan is not available.

The authority of the Corporation to buy and sell mortgage loans is given by two statutes—the National Housing Act and the Central Mortgage and Housing Corporation Act. Under Section 11 of the National Housing Act, the Corporation may purchase an insured loan from anyone who owns one; make loans to an approved lender on the security of insured loans; and sell to an approved lender any obligation owned by the Corporation, insured or otherwise.

Parliament apparently had in mind that these insured mortgages might be given greater liquidity, that they might some day become a kind of mortgage bond to be traded, bought and sold in the secondary mortgage market. A small mortgage market has developed: some $200 million of these mortgages have been sold over the past three years, mainly by banks selling them to pension funds and institutional bodies of that type. So, there is a small secondary mortgage market already developed.

So far as the Corporation is concerned, we have not been able to engage in the purchase of these mortgages, because the Government has not seen fit to use this instrument. Had the Government seen fit to do so last fall, instead of appointing banks our agents, we could have gone out and bought their mortgage paper from them on the understanding that they would put the new funds into housing.

This would have been another way of achieving the same end; we could have bought the mortgage paper from them, the funds could have gone into housing, we could have held the mortgage paper, and if at any future date the banks were flush with funds again, they could buy the paper back from us. But this kind of market operation has not developed. The sale of mortgages have been bilateral sales like banks to pension funds.

The funds for purchase transactions may be provided from the Corporation's capital or its reserve or out of money appropriated by Parliament under Section 22 of the National Housing Act. The only sales to date have involved the sale to the Bank of Montreal of approximately 200 residual direct loans. By a reciprocal arrangement, the mortgage loans so sold were re-sold to the Corporation's pension fund.

I found myself as a trustee of the pension fund in our Corporation, unable to buy one of our own loans because of some technicality in the National Housing Act. So, we had to sell the loan to the Bank of Montreal, which is an approved lender, and it re-sold it back to the pension fund.

The principal reasons for lack of activity under this section are that the life insurance companies generally invest for holding purposes; the banks, by policy, do not sell mortgages until insurance policies have been issued; and the Corporation has made no active effort to purchase loans from approved lenders.

The Corporation holds mortgage assets in respect of joint loans made under earlier legislation and also as a result of loans made to individuals or corporations under various lending provisions of the National Housing Act. We also hold mortgages and agreements of sale associated with sale of Corporation property. Statements IV and V on Page 31 of the Annual Report show the distribution of these assets.

Under Section 36 of the National Housing Act and complementary provincial legislation, the Government of Canada and the Government of a Province may enter into agreements for the construction of houses for rent or for sale. This is known as the Federal-Provincial arrangement. To the present time, activity under this Section has been limited by policy to rental projects—no houses for sale, only rentals.

Capital costs are borne 75% by the Federal Government and 25% by the Provincial Government. The Provincial Government may require the municipality to participate in the 25% Provincial share. Amortization of capital costs is spread over periods not exceeding 50 years. The rates of interest at which the Federal and Provincial Governments advance money are based on their current long-term borrowing rates. On completion of a project, the capital recoveries from rentals are shared by the governments. Any operating deficits are shared in the same way as original costs.

These rental housing projects are of two types. The scale of rent is decided according to a man's income and the number of children he has. For instance, a man may live in a four-bedroom unit and pay a rental of only $25 a month, while another tenant in the same project with fewer children and a higher income may pay $75 a month, and his subsidy may be nil.

In full recovery projects—that means recovery of capital and interest, where the project pays its own way—rents are set at a level sufficient to amortize capital costs and to cover operating expenses. Federal-provincial housing projects are initiated by the municipalities which submit applications to the province.

On much the same basis, Federal-Provincial land assembly projects are intended for the provision of serviced lots in areas where the lack of fronting services is impeding house construction. Cost of land assembly projects are financed 75% by the Federal Government and 25% by the Province. The Province may require the municipality to bear part or all of its 25% share. Municipalities are responsible for the initiation of land assembly projects.

The Minister of Public Works may enter into agreements with municipalities to assist in the clearance, re-planning, rehabilitation and modernization of blighted and substandard areas. The assistance is by financial contribution not exceeding one-half of the cost of acquisition and clearance of the area, paid either to the municipality or to the municipality and the province jointly. The Corporation acts as agent of the Minister for the purpose of such agreements.

In 1956, Parliament broadened the provision of this Section. Whereas cleared sites formerly had to be used for a low cost or moderate cost rental housing project or for public purpose, like a public park, the cleared area

is, under the amendment, to be used for its "highest and best use". This may be for commercial or industrial purposes as well as for housing or for a public purpose but the area, at the time of acquisition or after redevelopment, must be substantially residential. That is, before the redevelopment or after it must be substantially residential in order to justify the participation by the federal Government in the project.

The amount of Federal grant was also formerly limited to one-half the difference between the lesser or the actual or estimated cost of acquisition and clearance and the price or value of the cleared land. Under the amendment, the Federal Government may pay to the municipality up to one-half of the cost of acquisition and clearance. The proceeds from the sale or other disposition of the cleared site are shared equally by the municipality and the federal Government. That is to say ,we pay half the cost, and we share half the proceeds.

Also under the National Housing Act and with approval of the Government, the Corporation may make arrangements with a Province, or with a municipality with the approval of the Province, for grants to conduct special studies of conditions in urban areas, regarding the improvement of housing, the need for additional housing or urban redevelopment.

The Corporation may construct, own and manage housing projects on its own account and on behalf of Federal Government departments and agencies. Following World War II, the Corporation assumed the management of housing units constructed for munition workers by Wartime Housing Limited and a number of projects constructed by Housing Enterprises of Canada Limited. In addition, the Corporation constructed housing projects for the families of veterans and has also undertaken the management of housing projects owned by other government departments or agencies. At the end of 1957, the Corporation had under management 13,690 units in single and multiple unit projects in more than 100 municipalities across the country.

During the peak years we had more than 55,000, but gradually we have disposed of these by sales to the tenants. So, we have gradually brought down our position as landlord to 13,000, as it stands today.

The Corporation has designed and administered the construction of housing and certain other buildings on its own account and for government departments and agencies. Its responsibilities comprise architectural and engineering designs, calling of public tenders and the administration of the construction contracts—including any necessary on-site surveys and engineering. On such contracts, the Corporation carries out full architectural and engineering inspections. Incidentally, the other departments of Government pay us a fee for doing this.

Under Part V of the National Housing Act, Central Mortgage and Housing Corporation is instructed to encourage the development of better housing and sound community planning and to conduct housing research. Similarly, under Section 26 of the Central Mortgage and Housing Corporation Act, the Corporation is directed to undertake research on mortgage financing. Consequently, the Corporation is concerned with building technology in the formulation of standards for housing construction, in the use of suitable materials and in the development of new building techniques. The economic research activities of the Corporation are focussed mainly upon measuring the value and volume of new residential construction, analysing the sources of funds used for new house building, measuring the flows of mortgage lending in Canada and studying the demand for housing as it is related to population increase, demographic characteristics, income levels and the stock of housing.

The Corporation also examines proposed project layouts of house builders or land developers applying for loan insurance under the National Housing Act. These developments range from small housing projects under 100 units to large scale enterprises, including the development of new towns. Apart from information provided direct, the Corporation has a statutory responsibility for causing a wider public understanding of sound community development. The principal instrument for this purpose is an independently-incorporated national society of volunteers, the Community Planning Association of Canada.

As a service to the public, the Corporation has published a series of books illustrating houses and the Canadian Housing Design Council, formed in May, 1956 and sponsored by the Corporation, is dedicated to the encouragement of the best in house design. The President of Central Mortgage and Housing Corporation is a member of the Council and the Federal Government, through the Corporation, gives support to the Council.

I am afraid this is developing into a lengthy discussion but with your permission, Mr. Chairman, I would like to proceed to consider briefly the subject of housing in general and to explain how the Corporation's activities relate to the general improvement of living conditions in Canada.

There are at present over 4,000,000 occupied dwellings in Canada. About ½ million of these are on farms, nearly ¾ million in small communities, about 2¾ million—by far the largest part—in towns and cities and their immediate fringes.

Our housing stock is not a constant thing. Its composition changes continually as new houses are built and old houses are abandoned or destroyed. At any time, it will vary considerably as to quality and age. In recent years the total number of dwellings has been growing fairly rapidly, but not much more so than population.

Canada will need a bigger stock of housing in the future; how much bigger will depend upon many factors: the rate of population increase, movements of population and, to some extent, on the general standard of living. This suggests that a large volume of new house building must be put in place during the years ahead, both to provide the necessary expansion in the stock and to take care of replacement needs.

Members of the Committee will recall the Gordon Commission estimate that Canada's population by 1980 might be 26,000,000. Our present population is about 17,000,000. The actual number of houses needed to meet this increase will be based largely, of course, upon the net gain in the number of new families. It has been estimated that by 1980 there may be an additional 2,500,000 additional families in Canada. We know we have six million children under 18 at school. So this is not a fool's guess: we have these people with us now; they are our very own.

Not only families require dwellings. Many dwellings are occupied by single persons and by non-family households. To take care of this need, a further 250,000 new dwellings would be required. In addition, a sizeable number of housing units are destroyed or withdrawn from the stock each year. This process takes place irrespective of the number of families in the country. Houses are destroyed by fire; houses are torn down to make way for other uses, such as the building of streets or highways or industrial or commercial buildings; houses are condemned by municipal authorities.

Consequently, between now and 1980, some 200,000 dwellings might be required for replacement purposes. The figure could be much higher. An accelerated highway programme or a higher volume of slum clearance or a more stringent enforcement of local housing by-laws—any of these would increase the number of houses removed from the stock and raise the replacement figure.

Consideration must also be given to augmenting the housing stock to offset overcrowding. The last census of population in June, 1956 indicated there were 285,000 families sharing accommodation with other families. This is about the same number as in 1946. Moreover, the supply of rental accommodation in 1956 was reasonably tight—and it still is—and the number of vacant rental units was lower than some might consider desirable. A 2% vacancy ratio is generally considered to be normal.

Then, there are many dwellings that might merit immediate replacement because of their condition. We have built a great number of housing units—more than 1,150,000 since the end of the second world war. These have helped to improve overall quality, but there are still many low-income families living in poor and unsanitary housing. How seriously one considers this problem depends upon one's own views on adequate housing. You will appreciate, gentlemen, that this is a matter on which we as a corporation have no views. This is a matter of social decision, as to need. Some people may say "Today there are no people living in tents; therefore you do not need any additional housing". Other people will say "We have a quarter of a million people living in slums, therefore we do need additional housing." This is a social criterion; a social-political decision has to be made; and as far as we of the Corporation go we have no comment to make upon it. So if anyone says to us, "How many houses do we need in Canada?" I simply have to say "You had better tell me." We can tell you the number of overcrowded houses, the number of old houses, the number of decrepit houses; but it is a social criterion that has to be made somewhere politically to determine exactly what the need is. That is why we are avoiding that question with this fairly innocuous statement. Presumably our estimate of what is adequate will change as the general standard of living improves.

When the last comprehensive check on the state of our housing was made in 1951, it revealed that 20% of our rural and 9% of our urban housing was in need of major repair; that more than half the rural dwellings and not quite 6% of the urban dwellings lacked inside running water; that about 350,000 dwellings—or nearly 10% of our whole stock—was more than 75 years old and that a further 500,000 units were from 50 to 75 years of age.

In its study of housing requirements between now and 1980 and taking all these factors into consideration, the Gordon Commission estimated that some 3,500,000 new houses would be required. This would mean an average rate of building of 152,000 units per annum, higher than that which has obtained during the last two or three years. As shown in Table 1 of the Annual Report, starts in 1956 numbered 127,311 houses; in 1957, 122,340. As you know, Mr. Chairman, the number for this year is likely to reach 140,000 new dwellings.

So we are far behind the 152,000 mentioned by the Gordon Commission.

As I suggested earlier in my statement, most of the money for house-building in Canada comes from private sources. This is true even at times when the Government is conducting a large lending programme with public funds.

This situation arises in the first place out of the fact that one in every six dwellings is financed privately without mortgage assistance. Apart from large rental projects, usually of a luxury nature and financed outside the mortgage market, a considerable number of new homes is financed by the owners themselves. This type of housing may be found at either end of the income scale: it is built by the wealthy man who does not need a mortgage loan or by the poor man who cannot get a loan.

Senator **Horner**: How does he get a house?

Mr. Bates: It is a do-it-yourself proposition. This is the shack group you see around all large cities; people doing building by flashlight in the evening; some, with a little bit of co-operation, as in Nova Scotia, but that is really the only province doing much co-operative housing. I am referring to the poor man at the lower end of the income scale, that is $3,000 a year and under, who really cannot get into mortgage borrowing he must finance himself, perhaps getting a loan from a bank on the side, but doing it the very hard way often as a do-it-yourself proposition.

One-third of the new houses built are financed by conventional loans. These are provided either by private individuals or credit unions or by lending institutions, such as life insurance companies, trust and loan companies and fraternal organizations. Lending institutions are prohibited by law from making loans for more than 60% of the appraised value of a property. There is, of course, no limit on the amount of loans made by individuals and credit unions, but generally these lenders also limit themselves to a maximum of 60%. Terms of conventional loans, including rate of interest, are not controlled.

The remainder of the new housing is built with some form of participation by the Federal Government. During the last 10 years, this has been the case with between one-third and one-half of all the new houses in Canada. A small number are built for government use or result from direct government investment. Examples of the first type are married quarters constructed for the Department of National Defence or housing built for government employees in remote areas—Department of Transport and so on. In addition, there has been a small volume of public housing, the funds for which are provided partly by the Federal Government and partly by provincial or municipal governments.

Housing is also financed under government lending programmes other than the National Housing Act; these include the Veterans' Land Act and the Canadian Farm Loan Act. The numbers are small.

The bulk of the housing which involves Federal government participation is now built with National Housing Act mortgages, either under the insured loan arrangement or with funds provided by Parliament and advanced to the borrower by Central Mortgage and Housing Corporation. These loans provide for longer terms, lower rates of interest and smaller down payments than would be available elsewhere and many families are thus enabled to acquire a home of their own.

One of the continuing problems of new house financing is the need to ensure a steady and sufficient flow of mortgage money. The principal lenders are also large-scale investors in other forms of securities, such as government and corporate bonds. Thus, when the demand for long-term money by governments or corporations is high, the supply of mortgage money tends to be tight. In such times, rates of interests in the capital market rise. This affects, in particular, the supply of money for NHA insured mortgages since the maximum rate of interest that can be charged on such mortgages is limited by legislation. The rates are established by Order in Council; the government is subject to certain limitations in setting the rates. For example, the maximum rate on NHA insured mortgages cannot exceed by more than 2¼% the current yield on Federal 20-year theoretical bonds.

By contrast, there is no ceiling on rates of interest charged on conventional mortgages loans and lenders consequently prefer to direct their money into this type of loan, particularly when interest rates are rising. The main brunt of any shortage of mortgage money therefore falls on the National Housing Act sector of the housing program. This, as members of the Committee are aware, was what happened last year. Moreover, it was apparent at the time

that in the inevitable competition for the limited number of NHA loans being made by private lenders, families of modest means were finding it increasingly difficult to get financing.

I may say that, the supply of mortgage funds being limited, the lenders were able to select their borrowers with a little more care, and they were able to select a higher income group than they might have normally. It was in these circumstances that the Government last September announced the small loan programme.

Another factor in the Government's decision to broaden the Corporation's lending activities was its concern about the employment situation in the building trades. Whenever the volume of mortgage lending drops, the cutback in employment tends to be small for a time. Work continues on houses that have already been financed and are under construction. But, if the shortage of money continues, men are laid off as the houses are completed and the volume of building falls.

Work in the industry has always been extremely seasonal because of the difficulty and expense of carrying out certain building operations in the winter. It seemed, therefore, that because of a combination of circumstances an undue reduction in building operations might occur during the latter part of 1957. The Government's action in stepping up the rate of federal lending was therefore prompted on two scores.

Central Mortgage and Housing Corporation is expected at all times to have a full and complete knowledge and understanding of housing conditions. It then has the responsibility of advising the Government on the outlook and wether or not there will likely be sufficient mortgage money available from private sources to maintain any particular volume of new house building. However, the decision to enter the mortgage market on a large scale to make up an anticipated deficiency and, for that matter, any decision relating to the size of the housing programme considered necessary, must lie with the Government.

It is not enough merely to encourage the construction of new housing. It must be built in the right place and at a price that prospective home-owners can afford. This is the problem of distribution and it is equally true of rental accommodation.

The Corporation's actions have no direct effect on the type of housing built and financed outside the National Housing Act. But the terms and conditions on which the Corporation undertakes to insure and make loans, as well as the conditions under which the Federal Government invests money in public housing, do determine the type of housing built under the Act. By these means, the government can bring its influence to bear on sizeable proportion of the new residential construction built in any year.

The National Housing Act, 1954, was introduced primarily to assist middle income families to meet their housing needs—either by enabling them to acquire a home of their own or by providing rental accommodation they can afford. There is nothing in the Act to prevent Canadians with higher incomes applying for NHA loans. Some have, in fact, done so. The vast majority of higher income persons have, however, found it suits their interests better to finance their housing through conventional loans. As I mentioned earlier, the maximum NHA loan is $12,800. There is no maximum loan amount for a conventional loan. Even though some lenders cannot make conventional loans exceeding 60% of the value of the property, such loans can, and often do, exceed the NHA maximum if the value of the property is high enough.

Unfortunately, there are families that do not qualify for NHA loans because their incomes are too low. The Corporation therefore encourages private enterprise to build low rental accommodation by providing loans to limited-dividend companies. To provide for families at even lower income levels, the Federal

Government joins with the provincial governments in erecting publicly owned rental housing. As I have already indicated, in some of these public housing projects the rents are subsidized. Even where the rents are not directly subsidized, the use of government funds for building permits lower rents to be charged than would otherwise be possible.

The Minister of Public Works has indicated on several occasions that the Federal Government is prepared to join with the provinces in building additional public housing where it is required, but that the initiative must come from the province and, even before that, from the municipality concerned.

The National Housing Act has undoubtedly been successful in encouraging home ownership. This arises in part out of the fact that the amount of loan available for a property of given value is higher under the home ownership sections of the Act than under the rental sections. Furthermore, some of the Corporation's direct lending programmes have been restricted by government policy to home-owners or to builders building for sale for home-owners. Loans for rental property, for example, were not made in the latter stages of the agency loan programme and, under the new small home loan arrangement, the Corporation is not providing—for the moment at least—loans to finance rental properties. This is by Government policy. This in no way affects the Corporation's special lending programmes, such as the limited-dividend arrangement to which I have just referred. Just the same, the bulk of new rental accommodation built in this country in recent years has been financed outside the National Housing Act.

It will be a surprise to no one that there has been a sizeable increase in the cost of new housing in recent years. This is equally true of houses financed under the National Housing Act and by other means. For example, the average cost of a single-family house sold by builders under the National Housing Act increased from $10,456 in 1951 to $13,462 in 1956, or an advance of nearly 30% in five years. During the last quarter of 1957—and this is the most recent figure available—the average price of such a house was $14,362. In other words the rate of increase is still rising.

The increase in house prices has been accompanied by a fairly sharp rise in the average income of NHA borrowers, from $4,103 in 1951 to $5,312 in 1956. By the end of 1957, the average income of borrowers under the Act was $5,737.

These statistics have been interpreted by some to mean that the National Housing Act is no longer fulfilling its true purpose that is, it is serving a more well-to-do clientele than originally intended. This, Mr. Chairman, is not entirely correct. For one thing, private lenders always accommodate those whom they consider as the best risks and during the last year or so, with mortgage money in short supply, lower income families have found it more difficult to obtain loans.

Undoubtedly, this explains part of the recent rise in the average income figure for NHA insured loan borrowers. Apart from this, however, incomes of Canadians in general have been rising. We have all tended to move up the income scale together, even if some managed to move up a little faster than others. So, on these grounds alone, an increase in the average income of those buying NHA homes might have been expected. The average income of buyers of almost every other kind of product also went up.

It is perhaps worth noting that, at least during the years 1951-1955, the demand for NHA housing increased in all income ranges—that is, among the lower third, the middle third and the upper third. The lower third has never bought more than a negligible proportion of NHA housing.

I believe it is entirely possible that the rise in the price of houses has forced some prospective borrowers out of the market. We know that under the agency loan programme the average income of borrowers has been consistently lower than under the insured loan arrangement. Monthly payments have been lower and the houses smaller. Both have tended to bring new buyers into the market.

The average income under the agency arrangement was under $5,000 as against the $5,700 I mentioned earlier against the N.H.A. So we have got down to a slightly lower income band.

The rise in the cost of houses during these years resulted from many factors. About one-fifth of the increase between 1951 and 1957 was attributable to an increase in the size of house built. The average floor area of houses under the National Housing Act has increased from 1,091 square feet in 1951 to 1,185 square feet in 1957. A very substantial average increase in the size of house. These figures do not include the floor areas of houses financed under the agency arrangement, since they were limited in size by regulation.

An additional one-third of the increase has been owing to higher land costs. The remainder (44%) arose largely out of increased construction costs. In other words, higher wages and higher material prices accounted for less than one-half the increase in the cost of new houses during this period.

Of all these influences on rising house costs, the most troublesome is, in our opinion, land—particularly in our urban centres. Acre after acre is swallowed up each year—yet the demand continues inexorably. And this is one reason, of course, for our problem—scarcity, even in vastness that is Canada. There is lots of land, but to be of use for new construction, water and sewer installations must be provided. This brings about the second problem—increasing costs of underground services. Thirdly, the average standard of these services has improved—adding still further to the costs. Then, to an increasing extent, services formely paid out of local improvement taxes are being capitalized and charged to the borrower. Finally, there is no provision within the terms of the National Housing Act for financing trunk services to a new subdivision.

Some have pointed to the septic tank as a solution. We do not agree, Mr. Chairman; we have witnessed too often the almost disastrous results of a heavy concentration of septic tanks. We do believe, however, that there must be an answer and the search for an answer is a task we have set ourselves.

I am convinced that a major contribution the Federal Government has made towards improving housing and living conditions in Canada has been its encouragement to new house building by extending financial assistance to home-owners and builders and rental investors under the National Housing Act. More homes have been built than would otherwise have been possible and in this way the Corporation, through its operations, has helped to ease the housing shortage and to reduce overcrowding.

The Federal Government's program has also had a considerable impact on the quality of housing built. By insisting on sound building practices and on the use of good materials in all NHA houses, the Corporation has, I believe, raised the general standard of house building. NHA building practices are being adopted by an increasing number of builders, irrespective of how the houses they are erecting are being financed. Both the public and the lenders are demanding a higher standard of construction because of their familiarity with NHA building requirements.

The Corporation is also concerned with maintaining the quality of existing houses. It encourages owners to improve and modernize their properties by using the facilities afforded by the Home Improvement Section of the Act.

In some instances, a whole district of a town or a city may have become blighted. In these slum areas, it is no longer a question of patching and salvaging individual properties but of renewing and redeveloping the area as a whole. A slum is not only an eyesore, an affront to the sensitive. It is a stagnant pool in which are propagated disease, crime and delinquency and, as such, is a monstrous financial drain on the community.

Many municipalities in Canada are awakening with a rude shock to the realities of slums and are anxiously searching for ways and means of eradicating the blight, of providing a better human environment for its citizens. As I indicated earlier, the National Housing Act is available as a potent weapon in the war on slums. In the first place, the Corporation may share with a municipality the cost of its redevelopment program. In 1957, studies were completed in Halifax, Saint John, Winnipeg and Vancouver and Federal grants were made for studies in Hamilton, Sarnia, Regina and Trail. Secondly, the Federal Government shares with the community on a 50-50 basis the net cost of acquiring and clearing the land, which may be put to an entirely new use more in accord with the present requirements of the city. Or, as in Regent Park South in Toronto or the Jeanne-Mance project in Montreal, the land may eventually become the site for a Federal-Provincial low-rental public housing project, the costs of which are shared by the Federal Government with the province 75-25.

Mr. Chairman, I apologize for the length of this review. I think you will agree, however, that housing is a vast and complex subject. I hope my remarks have been helpful to members of the Committee.

The CHAIRMAN: Mr. Bates, both personally and on behalf of the committee I wish to thank you for your most comprehensive statement. Admitting it has been long, it has covered the subject much better than would have been possible by approaching it in a piecemeal fashion. I do not think you need apologize at all for having taken any of our time.

Hon. SENATORS: Hear, hear.

The CHAIRMAN: The meeting is now open for general discussion and questions and answers.

Senator REID: As so much information has been just given to us in this statement by Mr. Bates I think it might be wise to give us a little time to think it over. The statement contains much material that many honourable senators, I am sure, have never been acquainted with. As this is a problem which we want to study very thoroughly, I would suggest that we be given time to look over the statement and then return to ask questions. It is just a suggestion and I am prepared that we continue to sit now.

The CHAIRMAN: I am pleased that you have suggested that, for I think it would be impossible to give an opportunity now to everyone to ask questions. We could adjourn now to return another day to ask questions. I believe you all have copies of Mr. Bates' statement, and by Tuesday evening I expect to have the printed copies of these proceedings available for honourable senators. In the meantime if anybody wishes to ask questions we would be glad to have them.

Senator SMITH (*Queens-Shelburne*): Mr. Chairman, I wonder if I may ask Mr. Bates to comment on the technique of the Central Mortgage and Housing Corporation as to its encouraging the building of low-cost homes in the rural area. I am thinking in terms of fishing communities, and such, where a person may put in some of his own labour. At the same time, I would ask him to comment on whether or not he thinks the fact that this kind of program has not been taken advantage of in the Maritime provinces is in part responsible for the fact that there were fewer starts in that area this spring than last year? As I understand it, the starts in the spring are acually about 8 per cent.

Mr. BATES: Yes, I think it is true to say that at no time has the Corporation been encouraged by the Government to go out and try to sell its services in rural areas, or even in urban areas. The general attitude has been that we are standing behind the financial institutions and behind the Government, but that we are not doing any front desk selling job in terms of housing. Mr. Green has drawn this to our attention, and has asked us to devote increased attention to such areas as you are interested in.

We are now proceeding to follow this course. We are, for example, instructing our branch managers when they go through smaller towns—and we have a great many of them in Canada—to make a point of stopping and meeting the reeve or mayor, as the case may be, let him know what services we have available, leave some literature with him and some with the weekly newspaper, and in that way see if we can follow it up and do a little more development in the smaller areas.

It is an interesting fact that one will observe in a certain small town there may be perhaps ten new N.H.A. houses built in the past five or six years, while in a near-by village there are no N.H.A. houses. On inquiry we find that Mr. A. in the first community built an N.H.A. house, and he got the scheme started, while in the second community no one initiated it and so no houses were built.

With respect to your other questions, senator, we are very much concerned with the situation, but less so in Shelburne than in Newfoundland where a really different type of house has to be provided for the shore fisherman, for example. He cannot provide himself with the kind of housing that we would think of as being appropriate to the suburbs of Saint John, Halifax or elsewhere. A much lower cost house has to be found, and a house on which there can be a substantial amount of do-it-yourself operations.

We have been working with the people of Newfoundland on this type of project, and we have evolved a type of house that can be constructed in two stages: the first section could provide him and his family with adequate accommodation for about a year, and the second stage could be carried out by the fisherman himself without employing any labour. That is, he could have the basic unit started, and additional rooms later.

Senator DUPUIS: Excuse me. May I ask you, in those cases where the fisherman is allowed to do the work himself, is a certain amount for his wages allowed as a deduction from the loan?

Mr. BATES: Yes. We do not reserve this for fishermen only, but for house builders anywhere. We will make an allowance for the labour the owner puts into the house. For example, we do this in all the co-operatives in Nova Scotia: an allowance is made for what a man puts in himself; that is part of his equity, part of his down payment. We are quite willing to contemplate that in the case of any home owner, but clearly I think the point that the senator from Shelburne is raising would be the whole question of low cost housing.

May I say, it is very difficult to define what is low cost housing. I do not know what it means. I know what cheap housing is, but low cost housing is something different. If we are thinking in the terms of the lifetime of the house, its maintenance, upkeep, repairs and so on, it may be a very cheap house to begin with, but may run into a very substantial repair cost later on. For instance, a man may find a cheap lot 10 miles out of Ottawa and place a low cost house on that lot. Then he and his five children spend the rest of their lives driving in and out of Ottawa to business and school. In such a case the expenditures he makes on his automobiles are really part of the housing cost—he can't avoid it.

We have been working with the builders in the country on this question of low cost housing. We told the builders that while C.M.H.C. is maintaining the Standards, the builders are responsible for the cost of housing. We told them to go out and build us a house, not to the C.M.H.C. Standards, and if it was reasonable we would approve it.

One such house was built in Preston, Ontario, and a very good one; I believe that the builder is contemplating putting one up in Halifax. The cost of the house built in Preston, without the land, was $7,500. In other words, by abandoning C.M.H.C. Standards completely, they effected a saving of $450 or $500, below what would have been the cost on a minimum standard house.

We cannot build an N.H.A. house for $8,000, excluding land; but we are quite willing to go below that figure and approve the house for loan, if the builder can produce a lower cost house that will stand up.

Senator DUPUIS: And you will authorize the loan?

Mr. BATES: Yes.

Senator DUPUIS: May I ask another question? In the case where a man has a plot of land outside a town, and is required by the municipality to put in the water and sewage services, will the applicant be allowed the cost of these items out of his loan?

Mr. BATES: Do you mean, in the case where the applicant has to put in a septic tank and dig a well?

Senator DUPUIS: If he has to take water from the municipal water supply and tie on to the municipal sewage system, can he take the cost of such items from his loan?

Mr. BATES: Do you mean the cost of building a trunk line from somewhere to his lot?

Senator DUPUIS: Yes.

Mr. BATES: No, we do not go as far as that. We will allow him to put in the cost of the service on the project, that is all the frontal services and the laterals, but the Government will not allow us to finance a trunk line.

Senator DUPUIS: But if these services come in close proximity to the front of his house, the cost of putting them in is part of the loan.

Mr. BATES: Yes.

Senator HORNER: Of course the sewage and water services would mean greater value being placed on the house and land.

Mr. BATES: Yes, of course.

Senator SMITH *(Queens-Shelburne)*: I am not sure whether Dr. Bates finished his comments on why there was this great difference in the number of starts over the national picture and the number in the Maritime provinces. Does it have a direct relationship to the fact that the people in the rural Maritime areas have not taken advantage of what you can offer them on reduced specifications?

Mr. BATES: I don't think that is really much of a factor, because if one drives through the Ottawa valley on a Sunday afternoon, one sees very little N.H.A. housing in such towns as Perth. These towns have grown in the past, but are not growing now. This is also true of Shelburne. It is not very different from the picture in the Ottawa valley, as I have seen it.

Senator SMITH (*Queens-Shelburne*): From your point of view, you have no explanation for it. It is a general economic reason, is it?

Mr. BATES: Yes, except as I mentioned earlier, we are instructing our managers to go out and look for business in these areas and see if we can whip up some. Perhaps we may be able to answer that question better in six months time.

Senator LEONARD: May I direct a question to Dr. Bates with respect to the cessation of the Agency program? I notice from the report that loans have been approved for 16,000 dwellings between September and the end of the year. That program appears to be a substantial contribution to the building of houses; now with the cessation of that program how is the demand, which no doubt exists, to be filled?

Mr. BATES: When the program ended we had made 27,000 loans, which of course are in process everywhere across the country today. They are just now beginning to get on the market: I don't know how many have been completed—perhaps 2,000 out of the 25,000 have been completed and sold. Many have been sold, though they are not completed.

So, when we ceased the program following the election, we had something like $60 million worth of applications in our offices.

Senator LEONARD: That is over and above—

Mr. BATES: Over and above what had been made.

Senator CRERAR: Is that the election of June 10 or of March 31st?

Mr. BATES: That is at April 10th.

Senator CRERAR: 1957?

Mr. BATES: No, 1958.

We went to all the approved lenders, and those who were able agreed to take up some of these loans from us, and finance them out of their own resources. Something like $35 millions of the $60 millions were taken up by the banks and some insurance companies, and we were left with another $24 million or $25 million sitting on our desks.

When the Government provided us with the funds a few weeks ago, we proceeded and processed these to meet the applications made earlier. But as from that date the agency loan arrangement has stopped. The Approved Lenders had—not all of them, but many of them—put out their money, and when we stopped putting out money they began to put their own money out much faster. In effect, the number of starts which we will have in May or June will not be falling at all, because the Approved Lenders have been taking up this slack. Whether they take up the sack again in September, October, November and December is another point. They will take up some now, and it may be they will have run out of funds by that time, depending on the total capital market.

The total number of starts to the end of May of this year has been 40,000 as against 21,000 last year, or an increase of 86 per cent.

Senator LEONARD: At that rate, how would your program be in relation to your target of 140,000?

Mr. BATES: If we go at this rate the starts will reach 180,000; we expect the rate to taper off a bit in the summer and fall.

Senator LEONARD: But the small home will not be taken care of to the extent that it has been under the agency program?

Mr. BATES: We are still ready to lend on any home anywhere.

Senator LEONARD: But not to the same extent?

Mr. BATES: Yes, to the same extent, anywhere.

Senator LEONARD: The lending institutions would be concentrating as usual on the larger homes?

Mr. BATES: Maybe, but we are prepared to lend anywhere.

Although I may mention that when it was contemplated that we would not renew the agency program immediately we did see the approved lenders across the country, and I think generally speaking the approved lenders agreed

with this temporary cessation of the agency program until the country digests this tremendous amount of starts that we have had. We did not see any signs of indigestion anywhere. This is a very substantial volume.

Senator PEARSON: Would not this tremendous number of starts be likely to cause some inflation?

Mr. BATES: No, it has not put any strain on the building industry, and one might hope, in fact, it would increase the competition, the sales price competition at the sales end. But it has put no strain on the building industry in terms of labour and materials, and has not forced up costs in any way.

Senator McDONALD: May I ask, Dr. Bates, how you accomplished the very unusual feat of a reduction of staff, while at the same time you increased efficiency. It is a precedent of which other departments might care to learn the secret: how did you accomplish it?

Mr. BATES: We ran into slack times two years ago, or over a year ago. We had processed 65,000 loans in 1956. The following year it dropped to 45,000. So this gave us a chance to take a good look at ourselves. Our structure had been put together very hurriedly in the fall of 1954 when the insured mortgage operation was put into effect. We had to bring in appraisers from England, and we had to add very quickly to the staff. By 1956, when business went down a bit, and 1957, we had an opportunity to take a good look at ourselves. We were worried also by the thought that we were going to run into a deficit. This $35 fee we were charging was not adequate: I wanted to increase the fee, but I did not want to ask to increase it until we in the corporation had made sure that we had put our whole house in order and had done everything possible to reduce costs. So we began, dismissing staff and not renewing staff vacancies. At a later date, we brought in a Price Waterhouse team: they have been with us nearly a year, and we have reorganized the whole corporation. At the moment we are running the same operation we did two years ago. Under our former method of organization our expenditures would be two and a half million dollars higher than it is at the moment. We closed down many branches, turned full branches into minor branches, consolidated rental operations,—a town like Hamilton can do all the rentals for Kitchener and St. Catharines—instead of having offices scattered all over the country we were able to consolidate. So this has been a very extensive operation. We have combined with it, a very extensive educational operation amongst our branches, because if we were to make our branch managers more representative of the general operation we had to change them from the standing of a merely loan manager to that of someone who understood the whole operations, somebody who understood section 36 operation and so on. We have run courses for our senior staff. We had 300 people in Ottawa for six weeks, each taking a training course, so that these managers all of whom were university graduates, would be able to take a branch in Moose Jaw or anywhere else and be a true representative of the federal Government in that area as far as housing is concerned.

Senator CRERAR: Does the corporation give assistance to the building of apartment blocks for living purposes?

Mr. BATES: Yes. They can come under the ordinary insured loan.

Senator CRERAR: But you do not do it direct?

Mr. BATES: We have not been doing it directly.

Senator CRERAR: What percentage? Have you any idea as to the extent of which apartments have been financed under the National Housing Act?

Mr. BATES: Yes. I think we probably have some figures here. Last year we found in the fall a great many applications in places like Toronto—we were not getting so many from places like Halifax—for rentals, not so much demand for rental accommodation, but applications by builders and entrepreneurs. We had in 1956 about 25,000 units. In 1957 we had 28,000.

Senator CRERAR: What do you mean by "units"?

Mr. BATES: A 100-unit apartment would be 100 units. A unit is a self-contained dwelling within an apartment block. That is the unit.

Senator CRERAR: Well then, a residential apartment block that had accommodation for 50 households would have 50 units?

Mr. BATES: That is right.

Senator CRERAR: How many units did you have?

Mr. BATES: We had 28,000 last year.

Senator TURGEON: Do you have a control over the general nature of the unit itself?

Mr. BATES: If it is financed under the National Housing Act, yes, others are built by private capital, especially in Toronto and in Montreal, with Swiss, American and British capital, especially the more luxurious apartments. There is a great deal of foreign capital. Apartment buildings, at large, have been constructed primarily by conventional lenders and private capital.

Senator CRERAR: Have you any information as to the total amount of accommodation supplied through these apartment blocks all over the country?

Mr. BATES: I suppose we could make a rough guess. Say 27,000. I suppose you can have a fairly typical apartment—they run different sizes—but I suppose one and a half bedroom apartment would be average, about 850 square feet area. 850 times 27,000.

Senator CRERAR: I know that in the city of Winnipeg these residential apartment blocks are being built all over the place. Another question, Mr. Bates: what would be the normal increase required in the housing accommodation, including apartment block units, to meet the increase in our population,—to meet the early needs?

Mr. BATES: Well, our family formation this year will be up a good deal from last year. We will have about 120,000 new families in Canada in 1958.

Senator CRERAR: Theoretically that will require 120,000 new houses or apartment units?

Mr. BATES: Theoretically, yes. It is not the best measure, because you have, as I mentioned before, to take account of the number of houses that are being knocked down,—gas stations replacing them—the number destroyed by fires: a substantial replacement has to go on as well. And, as the standard of living rises, there are a great many more non-family households; that is, working girls here in Ottawa going into apartments; leaving home, even if their home is in the same town; they are taking apartments because of the higher standards of living, so that you have got a new demand for non-family one-unit apartments in all big cities.

Senator CRERAR: It may be a question of how far it is desirable to encourage that by public spending?

Mr. BATES: I am not going into the morality end of it.

Senator REID: I have one or two questions.

Mr. BATES: To answer a previous question: About 23 million square feet was provided last year in apartments.

Senator **Reid**: On page 5 you deal with reduction in the number of staff. It could be inferred, and I think you did state, that many who were formerly employed by you went back into the civil service. I think you said that.

Mr. **Bates**: In our regular turnover.

Senator **Reid**: I was wondering if there were many architects or if any architects went into the Civil Service, because there have been so many blunders in a number of buildings lately that I have wondered where they are hiding.

Mr. **Bates**: We have lost some of our architects.

Senator **Crerar**: Would you say that the number of houses built in 1957 was sufficient to meet normal requirements?

Mr. **Bates**: Yes, so long as you are not asking me to make some sociological decision as to the position of people who are living in the slums of Montreal or who are living in the slums of Toronto. But certainly, for the net increase in family formation, we had enough houses last year. The increase in family formations last year was just over 100,000, and we started about 122,000 houses, so we were a little better than the formation last year.

Senator **Reid**: That leads to another question. In the last 10 months, according to your statements, the national housing corporation has been supplied with $650 million. Now, did you expend all that? Will you run over the normal requirements? In other words, is $650 million based on the actual need for housing, or is it partially a program of unemployment relief?

Mr. **Bates**: Well, the first $300 million had run out by five or six weeks ago. Now it is not the intention that the present $350 million be put out at that speed. In other words, it is anticipated by the Government that this $350 million will keep us going for a year or two; and that is why we have stopped the agency arrangement at this moment of time and we are standing merely on residual loans to take care of those who cannot be picked up elsewhere. At the moment we are leaving it to the banks and other companies to carry the program. It may be that by next September that housing may be petering off in a way the Government does not like. If there has been a good demand for housing, if there are no unsold houses in December, it would probably be a wise policy for them to produce some more houses next winter. But it is my opinion, Senator, that by the end of the year, if we got into it again in September, we might have spent $30 million or something of that kind. In other words, it is not contemplated that the total $650 million will be pumped out quickly.

Senator **Crerar**: I quite understand that and I am not criticizing it but I think it is important to find out the reason why you go ahead and build houses if you see by next September that normal requirements are reasonably well met. It may be said that there is no need for more houses now but as unemployment grows you will be under pressure from construction men and through public opinion to go and build more houses to provide work for unemployed people. Do you think that might be a reasonable expectation?

Mr. **Bates**: I would think the pressure would be there. If there was substantial unemployment the pressure would be there. As advisers to the Government we have to draw to their attention the fact that if you do have—I dont expect there will be—100 unsold houses in Winnipeg, you would be very unwise to turn on the tap and produce another 100 unsold houses. We would have to draw this to their attention.

Senator **Crerar**: What effect will this have on reasonably good homes in a city or town where the owners say "I dont like climbing stairs. This house is 20 years old and I am going to take advantage of the opportunity given under Central Mortgage and Housing Corporation and get a brand new home, perhaps a bungalow style one." Say that he is able to do that. What effect will that have on the selling value of the house he leaves?

Mr. **Bates**: I do not think you can theorize on this very much. Each house is an individual unit. It stands on its own qualities, characteristics, its lot and the houses around it. Certainly if a mass of people in a block all move out from 20-year old houses you would see some depression in value.

Senator **Crerar**: They would be difficult to sell.

Mr. **Bates**: That is right, but if it is merely one person moving out then the turnover is not of any consequence.

Senator **Dessureault**: Do you have any surplus houses in any sections?

Mr. **Bates**: No, we have no surplus houses anywhere.

Senator **Dessureault**: Including Quebec City and Montreal?

Mr. **Bates**: Yes.

Senator **Reid**: I have four or five questions listed here that I would like to run through. I have a question bearing on page 3 of the brief. Have you anything to do with veterans' homes? I know you cover most houses.

Mr. **Bates**: No. The Department of Veterans Affairs looks after that.

Senator **Reid**: Entirely?

Mr. **Bates**: Yes.

Senator **Reid**: Is the type of house you build standard throughout Canada? Do they vary in any province? I ask that question because there are various types of houses to be recognized in each district. For instance, our houses out West, and in British Columbia particularly, are not entirely the same as those in the East. Are the standards established by Ottawa or according to the provinces?

Mr. **Bates**: According to the provinces; and there are great varieties. If you go through the housing development in Calgary and then go through the one at Scarboro you will not think they are in the same country at all.

Senator **Reid**: What is a single-family unit?

Mr. **Bates**: A single-family unit is distinct from a duplex or a triplex or a quadruple. A single unit is for a single family.

Senator **Reid**: How many rooms would a single-family dwelling have?

Mr. **Bates**: Two or three bedrooms. Most of them are three-bedroom houses now. At the end of the war the two-bedroom house was the typical sized one. The typical family was only one and a half and now it is three and a half, so three-bedroom houses are being built. Very few two-bedroom houses are being constructed.

Senator **Reid**: On page 9 of your statement you say "For home-owner applicants, these areas include centres with populations in excess of 55,000; and a bona fide builder may apply in any area, regardless of population." I think that probably needs a little clarification.

Mr. **Bates**: Yes, I think it does. The reason it arose is that up until two weeks ago Central Mortgage and Housing Corporation, by Government decree, was not allowed to make a direct loan in any town with a population of under 55,000 persons. But two weeks ago this limit was taken off. I do not think it is too well expressed in the brief, but that is what is meant by saying we now can make loans in a town of any size.

Senator **Reid**: Would there be any restrictions, then, on districts which have a population of less than 55,000?

Mr. **Bates**: No.

Senator **Reid**: There are no restrictions at all?

Mr. **Bates**: No, you could build anywhere, even in Aklavik.

Senator **Reid**: What is the reason for an amortization period of 50 years when the federal Government and a provincial Government join hands in a housing project while at the same time an amortization period of 25 years is the limit with respect to individual homes?

Mr. **Bates**: Usually in the case of federal-provincial arrangements you get into a fairly expensive type of buildings. For example, there is Regent Park.

Senator **Quinn**: I suppose this category would include apartment houses?

Mr. **Bates**: Yes. This type of housing is fairly expensive and is built to last a long time, say 80 years, so that you are able to have a longer amortization period. This helps to get the rent down.

Senator **Reid**: I understand. That explains it. On page 10 of your brief you speak of federal-provincial housing projects initiated by municipalities. Have many municipalities applied for this?

Mr. **Bates**: For real projects?

Senator **Reid**: Yes.

Mr. **Bates**: Yes, I understand that applications have been made by Toronto, Montreal, St. John's, Newfoundland, Saint John, New Brunswick, Vancouver, and I believe one has just been passed by the City Council in Halifax. I understand there are about 50 municipalities in all, including Hamilton, Windsor, and small towns like Goderich, Owen Sound, Smiths Falls and similar municipalities in Ontario. In all there are about 50 or 51.

Senator **Reid**: It seems to me that a new principle is introduced on page 11 of your statement. Perhaps the question I wish to ask will not be considered a fair one to ask you now but on page 11 you refer to the Minister of Public Works. You say that he may enter into agreements with municipalities to assist in the clearance, re-planning, rehabilitation and modernization of blighted and substandard areas. So far as I know this is the first time direct agreements have been entered into between municipalities and the federal Government for this kind of work. Probably I should not ask the question when the Minister of Public Works is referred to, but at the same time it seems to be a principle which was not in existence before.

Mr. **Bates**: I think, Senator, it is merely a textual difficulty. The agreement requires, first of all, that the Government of the province in which the area is situated should have approved the classification and clearance thereto by the municipality. In other words, we still require provincial approval.

Senator **Reid**: I am glad I asked that question.

Mr. **Bates**: Yes, because it is not explicit enough in the brief.

Senator **Reid**: My last question has to do with septic tanks. I am not one who advocates the construction of septic tanks but we have some peculiar circumstances out in the West in some of our municipalities, and I suppose this is true of elsewhere in Canada. I know there are districts in Vancouver which are 50 years old where septic tanks are still used. I know in my own district approval has been given for a large project where all the sewage is to be taken to one tank. It is just a cesspool, and I expect that 50 years will pass before a sewer ever goes through that district because it is just that far away from the sea. I am thinking that some consideration should be given to letting people build septic tanks under certain conditions. The home in which I am living has a septic tank and we have not had any trouble with it in 40 years.

Mr. BATES: You have a big lot.

Senator REIDS: No, but—

Mr. BATES: I have been there with you. You do have a big lot, senator.

Senator REID: In any event, I claim that a modern septic tank is better than the cesspools that you have approved for some districts. They are far better; there is much less trouble with them. There was a lot of trouble with those cesspools last year. They will cause disease to spread because the sewage from 25 or 50 homes goes into one pool.

Senator PEARSON: What do you call a septic tank?

Senator REID: What do I call a septic tank?

Senator PEARSON: Yes, as compared with a cesspool?

Senator REID: A cesspool, in the case I am talking about, is a place where the sewage from 50 homes drains into.

Senator PEARSON: It is bled out into a field? Is that what you call a cesspool?

Senator REID: No, what I am talking about is a project where in probably 50 years they will run a sewer through to funnel all the sewage from the existing cesspool. But what ruins this plan is that houses have to have wash basins and baths too and it is a well-known fact that soaps and detergents will turn a septic tank into a cesspool.

The CHAIRMAN: Senator Reid, this discussion of septic tanks as opposed to cesspools is a rather technical one.

Senator QUINN: And it is getting off the track.

Senator REID: Well, I didn't interrupt when anybody else was speaking. I wanted to finish my questions and now I have.

Senator WALL: With respect to the number of municipalities entering into the special agreements, what percentage of the units built will be involved in all such agreements? In other words, suppose we take a normal year, last year, and we think of all these municipal arrangements for low-cost housing. I suppose that is what it is. What percentage of the units would be built under that scheme vis-a-vis the total number of the units that are built during the year?

Mr. BATES: About 1 per cent; 2,000 out of 120,000 last year.

Senator WALL: On page 19 of the brief Mr. Bates makes the statement: "Unfortunately, there are families that do not qualify for N.H.A. loans because their incomes are too low."

I would say that is a strange statement in view of the situation that maintains. Actually, although I do not wish to quarrel with the figures of the Quarterly Report of 1957 with respect to Canadian housing statistics, at page 11, dealing with family incomes, I see the surveys show that the median income of non-farm families in Canada increased from $3,110 in 1951 to $3,829 in 1955. I understand that this group comes in the lower third category with respect to incomes. I may not be interpreting this correctly, but the fact remains that in Canada in 1955 43.9 per cent of the families earned $2,999 or less. So in effect the whole National Housing Act program does not come down to meet almost half of the Canadian families. I understand we are trying to build low-rental accommodation and trying to erect publicly-owned rental housing units, but that percentage would be woefully small in comparison to the 43.9 per cent of our families. The dilemma we have to face is: can we somehow reach down a little bit further and find other solutions. Perhaps we could decrease the income that a man must have in order to qualify for a loan. To me, the basic problem is to somehow make sure that a greater percentage of the national purchasing power and national income goes to meet the needs of the people who cannot qualify for mortgages under N.H.A.

Senator QUINN: Is not rental accommodation available to people in that class?

Senator WALL: There is, senator, but I think the percentage of such rental units is so small *vis-a-vis* the number of single units built as to be dismally disappointing. This, I think, is the basic problem.

Senator QUINN: We should encourage the building of more rental accommodation.

Senator WALL: We should either encourage it or reduce the requirements on the single-family dwelling so that families in the small income bracket may qualify for N.H.A. mortgages. Certainly, we cannot increase their incomes.

Mr. BATES: It might be easier.

Senator WALL: Perhaps we can decrease the basic requirements so that these people could qualify.

Senator QUINN: If the demand is there I wonder why the builders and the people who provide this type of accommodation do not take advantage of the opportunity of building that type.

Mr. BATES: The demand is not there—they haven't the money.

Senator WALL: The demand is there.

Mr. BATES: The demand is not there—it is the desire that is there. I am sure it is the desire of every Canadian to have a nice three-bedroom house on a lot in the country, but many people don't have the money for it.

Senator LEONARD: And they may not necessarily want a new house or new accommodation; they may be quite satisfied with the accommodation they have.

Mr. BATES: Yes. I think it should be remembered that in Canada we have an unusual circumstance: 70 per cent of our population live in single homes, and only the remainder live in rental apartments. This is a very high proportion in comparison with other countries: the Americans have only 61 per cent home owners as against our 70 per cent, and the British, only 40 per cent.

Senator QUINN: Is that not the cause of so much embarrassment on the part of the municipalities today, so many single unit houses going up which cost a great deal to service?

Mr. BATES: Yes, it is.

Senator ROBERTSON: Dr. Bates, you referred to the average price of the house now having risen to $14,362. Have you any rough scale as to what carrying charges and the equivalent rental of such accommodation would be?

Mr. BATES: Yes. The compilation depends on what we assume is the down payment to start with.

Senator ROBERTSON: What would be the equivalent rental?

Mr. BATES: I supose somewhere around $90 a month.

Senator LEONARD: You have the figure of $93 as being the average carrying charges.

Senator ROBERTSON: For that size of house?

Senator LEONARD: That is an average sized house.

Senator ROBERTSON: For that size of house costing $14,362, the equivalent for rental purposes would be about $90 a month.

Mr. BATES: Yes.

Senator SMITH *(Queens-Shelburne)*: Plus taxes.

Senator ROBERTSON: Yes, plus taxes.

Senator DUPUIS: I move the committee adjourn.

The meeting adjourned to the call of the chair.

1958

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE

on the Report of Central Mortgage and Housing
Corporation for the fiscal year ending
December 31, 1957.

No. 2

THURSDAY, JUNE 12, 1958

The Honourable C. G. Hawkins, *Chairman*

WITNESS

Mr. Stewart Bates, President, Central Mortgage
and Housing Corporation.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1958

Extract from the Minutes of the Proceedings of the Senate, Wednesday, June 11, 1958.

The Honourable Senator Aseltine moved, seconded by the Honourable Senator Quinn—

That the names of the Honourable Senators Brunt, Emerson and Thorvaldson be added to the list of Senators serving on the Standing Committee on Finance.

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate

THE STANDING COMMITTEE ON FINANCE

The Honourable C. G. Hawkins, *Chairman*

The Honourable Senators

Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Burchill
Campbell
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Dupuis
Emerson
Euler
Farris
Fraser
Gershaw
Golding
*Haig
Hawkins
Hayden
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Pratt
Quinn
Reid
Roebuck
Robertson
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
White
Woodrow—44

(Quorum 9)

**ex officio member.*

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate

TUESDAY, May 20, 1958.

With leave of the Senate,

The Honourable Senator Aseltine moved, seconded by the Honourable Senator Pearson—

That the Report of Central Mortgage and Housing Corporation for the fiscal year ended the 31st of December, 1957, be referred to the Standing Committee on Finance for consideration and report.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, June 12, 1958.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.30 a.m.

Present: The Honourable Senators: Hawkins, *Chairman*; Baird, Barbour, Beaubien, Brunt, Burchill, Campbell, Connolly (*Ottawa West*), Dupuis, Emerson, Euler, Isnor, Lambert, Leonard, McKeen, Molson, Reid, Smith (*Queens-Sherburne*), Taylor (*Norfolk*), Thorvaldson, Turgeon, Vaillancourt, White and Woodrow.—25.

In attendance: the official reporters of the Senate.

Consideration of the order of reference of May 20th, 1958, was resumed.

Mr. Stewart Bates, President, Central Mortgage and Housing Corporation, was heard and questioned by members of the Committee.

At 12.15 p.m. the Committee adjourned until Thursday, June 26th instant, at 10.30 a.m.

Attest.

James D. MacDonald,
Clerk of the Committee.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, THURSDAY, June, 12, 1958.

EVIDENCE

The Standing Committee on Finance, to which was referred the report of the Central Mortgage and Housing Corporation for the fiscal year ended 31st December, 1957, met this day at 10.30 a.m.

Senator HAWKINS in the chair.

The CHAIRMAN: Gentlemen, we have a quorum. Will you come to order, please? I have a slight correction to make in connection with the proceedings last week.

At the bottom of page 7, Mr. J. S. Hodgson is stated to be Liaison Officer of the Corporation and Mr. K. C. Joynes is stated as being an Executive Director of the Corporation. This is incorrect. The positions of these two gentlemen are reversed; Mr. Joynes is the Liaison Officer and Mr. Hodgson is an Executive Director of the Corporation.

We have with us this morning Mr. Stewart Bates, President of Central Mortgage and Housing Corporation and Mr. James Ross, Acting Treasurer of the Corporation.

Mr. Hodgson and Mr. Joynes are also present at this meeting.

You will recall that I said the other day that if there were some questions in connection with the financial report, we would arrange to have present one of the officers of the Corporation connected with that phase of it, and this morning Mr. Ross is here. But at the moment we will continue the questioning of Mr. Bates.

Mr. BATES: I think that at the last week's meeting Senator Robertson raised the question as to what the carrying charges would be on a house priced at $14,362. We gave him an approximate answer. I thought, however, that for your purposes you should have a really complete answer, and I should like to read this into the record, and perhaps give it to the *Hansard* reporter.

The average sales price of $14,362 includes the mortage insurance fee. Assuming that our lending value and the average sales price, both excluding mortgage insurance fee, are equal, a total insurable loan of $12,527 would be obtained. The monthly principal and interest repayments, based on a 25-year period at 6 per cent, would amount to $80.15, which together with an estimated average tax figure of $20 would produce total monthly carrying charges of $100.15.

Additional Information

Lending value on above basis		$14,118
Loan Amount	90% on $12,000—$10,800	
	70% on $ 2,118— 1,482	
		12,282
2% Insurance Fee		— 245.64
Total Insurable Loan		— 12,527.64
Equity required by purchaser		— 1,836

A loan of $12,527 at 6% would entail the following salary requirements:

Term	Monthly Charges (inc. taxes at $20)	Ratio of Charges to Income	Monthly Salary	Annual Salary
	$		$	$
25 years	100.15	27%	371	4,452
25 years	100.15	23%	435	5,220
30 years	94.50	27%	350	4,200
30 years	94.50	23%	410	4,920

Senator BARBOUR: Over how many years would that be?

Mr. BATES: About 80 per cent of the cases just now are on a 25-year basis.

I would also like to table details of apartment units, requested by Senator Crerar last week.

TABLE SHOWING THE PROPORTION OF APARTMENT UNITS TO TOTAL UNITS FINANCED UNDER THE NATIONAL HOUSING ACT

Year	Single Family Dwellings	% of Total	Multiple Family Dwellings	% of Total	TOTAL
1951	13,844	71.7	5,459	28.3	19,303
1952	22,152	64.5	12,171	35.5	34,323
1953	25,217	65.2	13,431	34.8	38,648
1954	37,089	74.0	13,030	26.0	50,119
1955	51,586	79.0	13,750	21.0	65,336
1956	34,132	82.7	7,151	17.3	41,283
1957	36,610	74.8	12,323	25.2	48,933

The CHAIRMAN: The meeting is open, gentlemen, for questions.

Senator SMITH (*Queens-Shelburne*): There is one question to which I did not find an answer in the brief or in the books that we had. What is the amount of insurance fee that a home owner must take care of when he enters into an agreement?

Mr. BATES: The home owner in Canada pays a single fee. In the United States he pays an annual fee, but in Canada it is computed into one single payment, and this is paid when the mortgage is taken; and the fee is 2 per cent of the loan. This fee can be added to the mortgage, 2 per cent of the loan. This has to be added to the mortgage.

Senator BRUNT: Not 2 per cent of the whole of the loan?

Mr. BATES: Yes. It is the same thing.

Senator SMITH (*Queens-Shelburne*): I also notice that there is a balance of $30 million in this insurance fund. My understanding of this situation is that this insurance fund is built up in case there should be a large number of mortgaged homes that have to be sold. That is to take care of the loss?

Mr. BATES: Any loss to an approved lender. That is right.

Senator SMITH (*Queens-Shelburne*): Is it the opinion of the Corporation that this $30 million is sufficient or that it is too much money? You can see what I am getting at. I am just wondering if you can get the amount of the insurance down.

Mr. BATES: I think the true answer is that we don't know. We have had no experience yet. Against this fund of $30 million there are standing liabilities of $1½ billion. That is the risk of the fund. Against this is $30 million, which means really that if we had 3 per cent defaults the fund would be used up. Three per cent defaults is very much larger than anything we have experienced since the fund was inaugurated four years ago. Three per cent is a very large

figure. However, if you look back at the experience of the depression—which we hope we will never have again but we must live with history as we know it—the defaults then ran to some 25 per cent. So we have a fund of $30 million standing against the liability of $1½ billion. If you ask me whether that is adequate or inadequate I cannot tell you. If we never have more than 3 per cent in defaults the fund will be adequate. If over the next 15 years we continue the experience of the last four years, then the fund will be more than adequate. We have had only seven claims on the fund in the last four years.

Senator BOUFFARD: Would you call a provincial moratorium a default?

Mr. BATES: I would think if you came to a situation where there was a provincial moratorium, this would arise because of the danger or presence of defaults on a large scale. So if we got into a situation like that it would probably mean we would have more than 3 per cent defaults.

Senator BOUFFARD: No doubt.

Mr. BATES: I would think so, yes. So I think, Senator Smith, the best we can do for the Government and the fund is to state the truth as we see it now. This is not a very large fund for risks one might face. I am not thinking merely of the risk of 1931 but of depressions of a much lesser magnitude. We are aware today, for example, with the present economy and experience in the country, that our arrears are growing. They are not what one would call dangerous but there is evidence in many parts of the country that unemployment is putting people into difficulty. This situation is growing. It has not led to many actual defaults yet but steps are being taken by the approved lenders to try to prevent a final default. This is the last desperate step in the mortgage business, to get into a default situation.

Senator EULER: How far do you let them get into arrears before you have a default?

Mr. BATES: In the case of our own property if at the end of the month someone has failed to make a payment, we make an immediate check and before the 10th of the next month we draw this to his attention. If the payment is not made by the end of the second month the person is invited to come in and explain the situation to us and we try to find some *modus operandi* by which he can make his payment. If at the end of the third month he has failed to turn up or answer our letters of inquiry, we then threaten him with action over the telephone or by calling on him. In most cases the person has come forward by this time to explain his problem. It may be sickness or unemployment. What we try to do in such cases is work out some kind of contribution towards his monthly payment. In other words, an attempt is made to try to handle each case on an individual basis. I think this is true of all approved lenders in Canada as well as of the Corporation.

Senator EULER: You have no definite time then on arrears, say, five or six months or longer, when you take action?

Mr. BATES: No. If the person in question is honestly trying to carry his load, whatever it happens to be, perhaps a sick wife combined with unemployment, and he is paying us only a token payment, will not be pressed any further than that.

Senator EULER: You have no rigid formula?

Mr. BATES: No. We think this has to be handled on an individual basis.

Senator LEONARD: That concerns your own lending but what about the loans made by approved lending institutions?

Mr. BATES: Generally the approved lending institutions try to follow the same pattern.

Senator LEONARD: Is there no insurance on their interest after a period of, is it three months?

Mr. BATES: Six months at the full rate.

Senator LEONARD: Is there some kind of urge on their part to take action sooner?

Mr. BATES: Yes, but even there, of course, there is no urge on them to force someone out of the house. An attempt is made to try to get at least a token payment; and I think the approved lenders, banks and insurance companies are very sensitive to this problem; I think the very last thing any of them want to do is get involved in a foreclosure.

Senator LEONARD: It would be easier for them, though, if the insurance covered a longer period of interest and arrears?

Mr. BATES: We give them six months at the full rate and twelve months at the rate, less two; in other words, there is an attempt to adjust for this problem.

Senator BRUNT: Have you had any foreclosures in that time?

Mr. BATES: We have only had seven claims from approved lenders—foreclosures.

Senator McKEEN: Out of how many loans?

Mr. BATES: The average loan is $10,000; it would be 150,000.

Senator McKEEN: Seven or eight out of 150,000?

Mr. BATES: Yes.

Senator McKEEN: Have you any record of how many have transferred from one owner to another; in other words, a man might get into difficulties and somebody else take over. Has that happened?

Mr. BATES: Yes. We do not keep a record of this; it is too difficult to bring it down to the individual.

Senator McKEEN: I thought in the case of a man who got into difficulty for several months that he might endeavour rather than to lose his equity, to try to sell the property and get his equity out, and keep it, and there would be no monetary loss as far as his payments on the house were concerned.

Mr. BATES: Yes. This is happening all the time, and there are cases of difficulty we do not know about between approved lenders and borrowers. We only find out cases where the approved lender has come to the end of the road and has to foreclose, but there are many adjustments made between borrower and lender that we don't know about.

Senator REID: In a case of that kind, must they have the approval of your department before he sells his equity?

Mr. BATES: No. There are cases I might mention where the equivalent of foreclosures have been made, but the approved lender has not come on the fund for any insurance.

Senator McKEEN: He has made no loss?

Mr. BATES: He has made no loss.

Senator EULER: Would you not receive notice of the transfer of the equity? Would you not have some record of that?

Mr. BATES: Yes.

Senator BOUFFARD: I suppose the man who borrowed the money remains responsible, even if he sells his house?

Senator BRUNT: In Ontario, Senator Bouffard, you have to elect whether you want to take a man who is liable on the covenant of the mortgage or the present owner; you cannot have both.

Senator BOUFFARD: You have to make the choice?

Senator **Brunt**: Yes.

Mr. **Bates**: None of these of course would be against the fund. These would be veterans' houses, for instance, that we had sold to some one and had failed to—

Senator **Brunt**: But has your corporation had any foreclosures in the last four years?

Mr. **Bates**: It would be very, very few. I do not recall any coming on my desk, and they are apt to if we have them, because usually as we are a government organization, there is a political complaint of some kind.

Senator **Euler**: Has there ever been a charge against foreclosures?

Mr. **Bates**: No, sir. Up to the end of April we had made a gain of some $4,900 on these properties. We had sold most of them. Most of these cases, in other words, had been unfortunate human problems, family disruptions, a breakup of family. I think almost all the seven cases that came before us were of this type where, in one case, both of the parties had disappeared and simply left the house. In some cases there was difficulty in finding the parties concerned—family breakups.

Senator **Brunt**: Do I understand from you correctly that the seven foreclosures show a profit of some $4,000?

Mr. **Bates**: This is rough.

Senator **Brunt**: Is it the intention of the corporation to put that in the fund?

Mr. **Bates**: It goes automatically into the fund; it is the law.

Senator **Euler**: Would not the equity holder get some money back?

Mr. **Bates**: In these cases they could not be found.

Senator **Brunt**: Eventually they may be found.

Mr. **Bates**: They may be found; this is a terrible situation to be in. I should like every senator to know that every branch manager in the corporation is warned to avoid this situation if it can be avoided. That is, to avoid a situation where a property is turned over to us. We are merely the trustees of a fund set up by Parliament, we have no access to it; but our staff is warned that steps must be taken to try to make clear to the unfortunate parties what their rights are, what their equity position is, and to try to advise them to sell the house rather than foreclose it, if this can be taken. Every branch manager knows this.

Senator **Reid**: I am sorry, Dr. Bates, I did not get clearly the answer you gave a moment ago, and I think it is sufficiently important to repeat the question. When an approved borrower purchases a property and then sells it, does the person to whom he sells have to become an approved borrower, the same as did the man in the first instance?

Mr. **Bates**: No.

Senator **Reid**: He can sell to anyone?

Mr. **Bates**: Yes.

Senator **Brunt**: There are no restrictions on the sale?

Mr. **Bates**: No.

Senator **Brunt**: There couldn't be.

Mr. **Bates**: No.

Senator **Leonard**: I take it from what you said as to the insurance fund, Dr. Bates, when the loan is paid off the premium still stays in the fund, and does not return to the profit and loss account?

Mr. **Bates**: No.

Senator LEONARD: As the loans are paid off the fund will grow from 3 per cent, and at some stage will reach a figure which you consider adequate.

Mr. BATES: Yes sir. Of course, I do not know what that figure is going to be, nor do I know when that day will come.

Senator LEONARD: But it will be reached.

Mr. BATES: Yes sir. I think this is something we have to learn by experience over the next few years. If we have the kind of economy that is never going to dip down to the 1937 lows, it may be that in five or seven years' time the fund will look very adequate; and perhaps at that stage Parliament will consider a smaller premium. It may drop to one per cent.

Senator BRUNT: Dr. Bates, I want to be sure on this point: under the present legislation you are compelled to put all profit that is realized on foreclosure into this insurance fund?

Mr. BATES: Yes sir, of which we are merely the trustee.

Senator LEONARD: May I follow that up by asking whether the approved lending company is required to foreclose instead of taking what we call power of sale proceedings?

Mr. BATES: No, they are free....

Senator LEONARD: They are free to take power of sale proceedings?

Mr. BATES: Yes.

Senator LEONARD: And still claim against the fund for any loss that results?

Mr. BATES: No; they make up their minds one way or the other.

Senator LEONARD: If they claim they must foreclose?

Mr. BATES: Yes.

Senator LEONARD: And then the profit is turned over to the Central Mortgage and Housing Corporation?

The CHAIRMAN: Senator Smith?

Senator SMITH *(Queens-Shelburne)*: I was wondering, Mr. Chairman, whether that subject had been exhausted. My question has nothing to do with that subject.

Senator ISNOR: May I ask, Dr. Bates, would you consider in view of the broadened extent of your loan policy that your risks will increase in future years?

Mr. BATES: This depends entirely on Government policy. If the Government policy decrees that our efforts should be directed more and more to the low cost housing and low income families, which I believe is the direction in which we are tending at the moment, then automatically we are going into a greater risk class. Therefore, senator, I think this depends entirely on Government policy. Clearly, in the past few years where the decision has been in the hands of approved lenders, who determine whether a party is creditworthy or not, they have been fairly selective. That is why our statistics show the average family earnings under N.H.A. have gradually crept up from $5,000 to $5,800 this year. This was because of the process of selection of some sort by the approved lenders. But the risk in these cases were obviously much smaller than they will be if we try to get a cheaper kind of house and get down to, say, the $4,000 income, where the occupational risk tends to be greater.

The CHAIRMAN: Has your experience proved that, or is that an assumption on your part?

Mr. BATES: This is just an assumption on my part, because we have no experience in that field.

The CHAIRMAN: I would not want this to go into the record as indicating your experience, because I am not at all sure that your assumption is correct.

Mr. BATES: This is merely an assumption—that the lower you get in income the greater the risk.

The CHAIRMAN: I think you will find the experience of some lending institutions has been that most of their losses have been in the high income groups and in high amounts.

Mr. BATES: This is true of some, but I still think if we get down to the level of providing houses for people earning $1,000 a year we are going to suffer more risk than if we provide houses for people earning $5,000 a year.

Senator BARBOUR: Have you greater demand from purchasers to buy houses than you have houses for sale?

Mr. BATES: I don't think you can say we have a greater demand. We have not a smaller demand. As the houses come forward they are being taken up. For example, at the end of April this year we had in Canada, despite the tremendous house building program, the biggest spring production we ever had, and we had only two hundred unsold houses, or four days' supply. On the 1st day of April a year ago we had 2,900 unsold houses, and the supply had not been quite as big as this spring.

So, in answer to your question, senator, all one can say is that as houses come forward they are certainly being taken up, and are taken up rapidly. For this slightly lower cost house many people at the moment are buying not even holes in the ground, but they have seen a model and they have been promised a house of that type for, say, next December. But the hole in the ground has not even started yet; that is, in these lower-cost houses.

Senator BAIRD: In other words, you have sort of sold ahead?

Mr. BATES: More than sold ahead.

Senator LEONARD: I am somewhat concerned as to whether there is an effective demand for the 140,000 houses started this year? Are not the completions at the present time the result of starts made from June of last year, when there was really an abnormally low number of starts, and the activity at the present time will not be reflected in houses completed and for sale until, perhaps, July, August, September, up to November? It seems to me that there may well be a surplus over and above the effective demand by that time. Can you comment on that?

Mr. BATES: Yes. I think you should recall that it is taking a little less time to build a house today than it was some years ago. At one stage it was averaging ten months, and then it fell to six, and actually in the present program we have many houses completed in five months. The present Government's program began last summer; that is, the announcement was made; and starts were made before Christmas. Some of these houses are already on the market. I think about 4,000 of them have already been sold up to the end of April. So we have been experiencing, sir, since April, some of this increased flow of housing. It has been coming on the market since April and May; and it is true that the main volume will not reach the market until July and August. But we have no indication, sir, that builders have seen any difficulty in disposing of these houses. They are not foreseeing any difficulty; they are having enough forward orders. I am speaking of the country at large. There may be localities somewhere where, in fact, some small surplus has emerged; but if our general situation in connection with this continues as it is at this moment we do not foresee any national problem. There may be some local area where there is some small difficulty. I think I should

mention too that last year, 1957, the family formation in Canada was about 85,000. This year it is going to be at least 20,000 more than that, the way it has been running through the first five months.

Senator LEONARD: I wonder at that figure of yours, because the big jump last year was due to immigration, and immigration has fallen off very considerably.

Mr. BATES: Immigration is off.

Senator LEONARD: And it is not expected that there would be such an increase this year. Because marriages follow just a fairly normal increase.

Mr. BATES: The marriage age is still going down. Canadians are still marrying younger every year.

Senator LEONARD: I do not think the figures to date in 1958 show any appreciable jump over last year, so I don't know where the increase of 20,000 in the family formation is to come from.

Mr. BATES: I think you should remember this, sir, that when anybody comes into this country it is very seldom that he can buy a house in the first year that he is here. The effect of immigration does not show itself in the housing market until about two years afterwards, until they have been here long enough. Actually the first-year immigrant makes practically no difference. So any figure that the Bureau of Statistics puts out for 106,000 new marriages, or the family formation, they are thinking no doubt not only of the size of immigration but of marriage after immigration, and all the other things that take place.

Senator LEONARD: I think they use the figure of married women coming in, do they not, which rather indicates the setting up of a family at the time the married woman comes in.

Mr. BATES: Right. But we in the housing business would expect in 1958 to see the immigration of 1956 beginning to come into the picture.

Senator EULER: That is, immigration has not had any effect at the start.

Mr. BATES: Not on housing. It may have an influence on rentals.

Senator SMITH *(Queens-Shelburne)*: I would like to mention something which was referred to at the last meeting, with regard to the encouragement of low-cost homes. Doctor Bates seemed to indicate to me that they were giving special attention to this problem in the province of Newfoundland, where it is felt that there is a greater need of new and better housing than they now have. If anything is done that will solve the financing problem, will it be in a form that will be adapted to all provinces, and not to particular localities?

Mr. BATES: I think that must be so. What faces us is the need for a much more modest type of house, for the remote area, shall we say. I don't care whether it is in Newfoundland or up at Killaloe or Barry's Bay, or in the north country somewhere. But, the need for a more modest type of house. We think that we have to design one of these. We know that the approved lenders would not lend on them in the past. Now we are in a direct lending position we can lend ourselves on them.

Senator BRUNT: Pardon me: you say that approved lenders would not lend on them in the past, even though the loan was guaranteed?

Mr. BATES: They have not particularly liked to.

Senator BRUNT: Did this come out, that they refused a loan on the type of house you are now describing?

Mr. BATES: The type of house we are now describing is a house around $5,000.

Senator BAIRD: In the remote areas?

Mr. **BATES**: In the remote areas, particularly.

Senator **EULER**: They are not building those, are they?

Mr. **BATES**: This type of house is not built to start with. If it is, it is probably built by a flash-light builder who could not get a loan. The ordinary approved lender, with the kind of demand we have had in the last 10 years in the suburbs of Ottawa and Toronto, could use all his funds in loans on $14,000 to $16,000 houses, to men with incomes running around $5,000 a year. Therefore he has simply not been required to pay attention to this smaller type of house in the remote areas. We are thinking of a type of house that perhaps some of you grew up in, where it was not necessary, for example, that every bedroom had to go off a corridor, though some bedrooms might, where there was a fairly large living room. I think perhaps that this house is much better than many fishermen have in the Maritimes and in Newfoundland, but it is a house which does not have quite the same number of these specialties to which people have become accustomed, in the urban centres. I think I should remind you also that in all urban centres in this country there are many municipal bylaws which just forbid a $5,000 house being built. It is just impossible. They must have a certain amount of space and privacy elements in them, and so on, and it is impossible to build them at a cost of $5,000. It is perhaps possible under most municipal bylaws to build a house around $8,000 without land, but you cannot get much below that under the municipal laws in this country.

I might mention some of the items you could take from a house to cut down the cost. Most houses today have very fashionable kitchen cupboards with sliding doors. I am sure there are many people living in remote areas in this country who would be quite happy to have kitchen cupboards with shelves only in them if they could save $300 or whatever the figure happens to be. This is one item we might consider taking out. We must have in our standards some type of clothes closets with a certain amount of footage in them and doors on them. Many people living in the remoter areas would be quite happy to have no clothes closets and to hang their clothes in other places such as behind doors.

Senator **EULER**: They might even do without a dining room and eat in the kitchen.

Mr. **BATES**: You must have interior doors and special hardware and finished flooring. Many people would be quite happy to walk on painted softwood floors. You must have a medicine cabinet and storm sashes and screens. This is something many men could make for themselves in the first winter after they get into the house. I did this myself. Then there has to be finished interior painting. Well, I did mine. I spent the last three months doing it.

Then you must have interior trim other than on exterior doors, and you have to have joint filling of wallboard finish. Then you have to have walkways and driveways, and you have to have platform landings at exterior entrances. You must have a platform. You can't just go down a few steps or a ramp consisting of three boards. The basement floors must be finished with a smooth finish.

All rooms must be finished. Obviously some rooms could be left unfinished. In a storey-and-a-half house the upstairs might be left unfinished and the man of the house could cover over the insulation with wallboard or something else. There have to be porcelain socket-type fixtures. In some of the poorer areas we could possibly omit the bath tub and do what I did when I was a boy. I used something else to wash myself. In other words, we could have, shall I say, an improved summer cottage, something that is well insulated and so on.

We are designing one of these now and we will lend on it if no one else will. We will lend on it in the outlying areas. We will draw up brochures showing these houses.

Senator SMITH (*Queens-Shelburne*): You haven't got them drawn up yet, have you?

Mr. BATES: No, but we may have in a month or two. We will give the brochures to the editors of weekly newspapers, and so on, and tell them "Here is a house for $5,000 if someone wants a home better than the paper shacks existing in Hull and in parts of Ottawa today, and we will make a loan on them." We will not be afraid of the credit worthiness of the lower income group.

The CHAIRMAN: I am glad that statement is on the record.

Senator MOLSON: How did the standards of C.M.H.C. originate? I was reading the minutes of the last meeting and I noticed you were dealing with those.

Mr. BATES: There were standards in existence before C.M.H.C. came into existence ten years ago. There were municipal standards in all urban areas. There was a terrific variety of them. As a matter of fact, there were 13 varieties in Montreal alone. In other words there were 13 municipalities in Montreal each with a different set of standards. However, there were basic standards to start with. Before C.M.H.C. was in existence the approved lenders themselves had inspectors and they had their own sort of standards in mind. These standards varied between lenders. They were not all written out in the form of a national standard code, but they were in existence.

When the Building Research group of the National Research Council came into existence after the war it began thinking of a national housing code and it started to prepare such a code. This code is now in existence and is followed by some 450 municipalities throughout Canada. So that when we got into the inspection business in 1954, which was the first time C.M.H.C. was confronted with it, there was already in existence both in Ottawa and in the municipalities a hard core of standards. These were taken by C.M.H.C. and put into a booklet. The ambition at that time was to upgrade the housing in Canada, and this was a good long-term ambition. I don't think anybody will disagree whhith that statement.

Basically the standards had three things that all standards must have, even in cheap houses. They must be structurally sound and have all the tenets for public health, whatever they happen to be, and they must be constructed to minimize fire risks. That is, we cannot have stoves with clothes hanging over them, and so on. These are the three basic standards required, and every house must have these.

Our booklet of standards published in 1954 went a good deal beyond this, as has the National Building Code and the standards of the approved lenders. These standards have produced the kind of things I have been reading out to you. We did this job in 1954 because we had to. We had to set up standards. We have since gone out of the standard-making business. The standards are now in the hands of the Research Council. We are a member of the Board, along with the Plumbing and Heating Association, the Electrical Association and all these parties that go to the provision of material.

We are all members of the committee of the National Research Council that sets up the standards. Now, these standards are the minimum standards. You can still produce a house of $8,000 under N.H.A. standards. But no builder will build that kind of a house. They all add something to the basic standards. We say that if the builder is going to have a certain kind of floor then it must be built to a certain standard, but we are not saying that he must

build that type of floor to begin with. These standards are minimum standards but all these extras have been added on and have, in effect, become what we might say the regular standards. They are no longer the minimum standards but the going standards.

Senator MOLSON: And the minimum price of the going standard is considerably higher, around $14,000?

Mr. BATES: Of course. Senator Smith asked us about putting together a smaller house. We are going to put together two smaller types. One will be a house which meets our national minimum standards, a house that will sell for about $8,000 per unit. We are trying to get a builder in Ottawa to put up a group of these now, and the other is a still lower cost type of house.

Senator MCDONALD (*Kings*): The essential requirements will still be there?

Mr. BATES: Yes, they will have to be met but they are not difficult to meet. They are the standards having to do with structure, health and fire.

Senator CAMPBELL: Is there not another factor you have to bear in mind? A house has to be attractive enough to be sold. Is that not why a lot of extras are being added by the builders?

Mr. BATES: This is so. Dealers are not adding these because they want to particularly, they are adding them because they think this will make the houses sell, and they do make the houses sell. In some cases they have gone as far as $22,000.

Senator CAMPBELL: What down payment do you want?

Mr. BATES: On $22,000?

Senator CAMPBELL: Yes?

Mr. BATES: The maximum loan is $12,800 under the N.H.A.

Senator LEONARD: He is not supposed to have a second mortgage?

Mr. BATES: He is not supposed to have a second mortgage. Your words are well chosen, sir.

Senator SMITH (*Queens-Shelburne*): I have one more question I should like to ask Mr. Bates. If you have designed a low-cost house, will you send me a copy, I would like to see what it is like?

Mr. BATES: To any of you honourable gentlemen who are interested in looking at this in embryo, before we issue it, we shall be very happy to have you come down to the corporation to see them and to talk to us about it, and to hear what you think about it. We would like to know in advance. I leave it to you, sir, and you might find others who are interested, and they can come down and see us and talk about it.

Senator REID: What do you say is the maximum loan under the National Housing Act?

Mr. BATES: $12,800. For the $22,000 home and upwards you are better off by getting a conventional loan. When you get up to $30,000 you can get an $18,000 conventional loan. There comes a point because of the breakoff of $12,800 of the maximum loan, but the rest is really left to the approved lenders in the conventional loan field. The N.H.A. is designed for houses under $16,000.

Senator CAMPBELL: What would be the cost of the land for a $22,000 house you are speaking of here?

Mr. BATES: It would be $4,200 to $4,500.

Senator CAMPBELL: Roughly 20 per cent?

Mr. BATES: Roughly 20 per cent.

Senator CAMPBELL: In your experience over the past four years have land values increased more than building costs?

Mr. **Bates**: Oh, substantially.

Senator **Campbell**: That is one of the problems of the urban centres?

Mr. **Bates**: This is a major problem. In 1954 the average across the country, and this is low because it takes in many small towns, was $1,600.

Senator **Campbell**: Have you it in percentages?

Mr. **Bates**: The average land cost has risen from $1,600 in 1954 to $2,300 in 1957.

Senator **Euler**: I suppose you would not want to give an opinion on this, because it is a matter of policy, but it occurs to me that the man who wants to buy a $22,000 or $25,000 house should not receive the benefit under these housing acts, and that that benefit should be devoted to helping out the fellow who can only live in the $5,000 or $6,000 house. The man who buys the $22,000 or $25,000 house should be left pretty much on his own, I think.

Mr. **Bates**: Actually, sir, the number of N.H.A. borrowers at that level is very infinitesimal, but there are quite a number of $18,000 buyers coming into N.H.A., but there is a sort of breaking point in there. I can give you some figures for last year, but they are not prices of houses, but rather incomes of applicants. We had only five per cent of the total N.H.A. borrowers with earnings of $10,000 a year up. Only ten per cent of the borrowers had incomes of over $7,000 a year. Ninety per cent of our people earned under $7,000 a year. Thirty-five per cent of the borrowers were under $5,000 a year.

I have here the house prices and these are percentage figures: Houses of $16,000 and over in 1957 took 29 per cent of our funds.

Senator **Campbell**: Those are the urban areas?

Mr. **Bates**: Yes.

Senator **Leonard**: You used to have a regulation I believe that you could not loan below 70 per cent of the lending valve, which was to prevent competition with conventional loans.

Mr. **Bates**: It was taken out in 1956, I think. There is no cutoff in the lending value now for single family dwellings.

Senator **Leonard**: There is a field of competition?

Mr. **Bates**: Yes.

Senator **Wall**: Before I ask the one question concerning the application of the extension of the N.H.A. to dormitory buildings of universities, I should like to comment on this low cost type housing. I notice on page 29 of the quarterly report that table 35 is very, very significant. It says that in 1946, 33 per cent of the loans of applicants were from applicants earning $2,000 or less; 46 per cent of the applicants under the National Housing Act were earning less than $3,000 a year; which meant that the National Housing Act was directed to what would be at that time low income people. If you swing over to 1956 you will find that only .4 per cent of the applicants were earning $3,000 or less, and 15 per cent were earning $4,000 or less. Now, if you compare that with the incomes of families, I think the booklet that was used for some of his information in the last survey said that in 1955 we had 62 per cent of the Canadian families earning $4,000 or less; so that basically the act is not reaching people of low income as well to-day as was the fact when the act was started. Anything we can do to reach down into this level of lower income families is very important. You might do that by bringing in a low cost type home. Could that be done by raising the income percentage requirement from 27, as it now is, to some other figure, or by extending the term of the loan? What other avenues are there, Dr. Bates, for reaching down to these low income people who really need the home?

Mr. BATES: First of all, when you refer back to 1946, it should be pointed out that the average house being built in Canada was 800 square feet; when you come to 1956, the average size house is 1,172 square feet. In other words, the house in that time has grown by one-third. So, if you want to get back to the low income group you have to perhaps think of a more modest commodity. Instead of building all Cadillacs, we should perhaps think of the "model T" or perhaps of the "model A". This is part of the discussion we have been having this morning, and I think this is a very important part of it.

There are other steps that can be considered from a financial point of view: the down payment provisions could be made lower than they are. Of course, this does not help very much because as you lower the down payment you, in effect, increase the size of income the man must have to carry the additional debt. You are caught in a dilemma.

There is also the question of interest rates,—I am not suggesting that it be subsidized—whether the interest rate might be closer to the point at which the Government borrows. But these are matters of Government policy, and not our concern. I think most of the houses we are building today are going to last as long as the houses you gentlemen are living in. I don't know, however, that they will last as long as the houses our grandfathers built, but we have a large number of houses in Canada over 50 years old.

The amortization period could be lengthened beyond 25 years as we have it today. Home owners in Canada are today looking after their homes very well indeed. One has only to look at the Manor Parks, or the Etobicokes, or the developments in St. John's. So, I think the amortization period could be stretched out a bit. These are the financial considerations.

Someone raised the question of land cost. One reason why land cost has gone up so much is that many municipalities have run away their ordinary pre-war responsibility of bringing out trunk sewers and services to the land; these were operations that they did before the war on a borrowing basis, with a municipal improvement tax.

Senator BRUNT: Did you say "run away"?

Mr. BATES: Yes, run away.

Senator BRUNT: I don't think that is fair at all.

Mr. BATES: I will change the wording: they had to run away.

Senator BRUNT: They just could not do it.

The CHAIRMAN: Continue.

Mr. BATES: I want to be clear on this one point: one reason why land price has gone up so much, is that they have put what was formerly the municipal improvement tax into the mortgage. The developer is compelled to bring in sewers, to lay streets and sidewalks, and in some communities is compelled to build a school. You can call this running away from responsibility or not, I am not going to argue it, but this has happened. This cost gets into the price of the land and into the mortgage.

As far as the home owner is concerned, this does not matter very much. He pays this additional amount off over 25 years instead of over 15 years. But those figures get into our statistics, our mortgage fund, and into the flow of mortgages. Instead of an insurance company issuing municipal bonds for a municipality which wants to do a developmental job, that company is putting the money out in the form of mortgages. This is one reason why the cost of land has risen so high. If, for example, there were provincial or federal aids to municipalities to provide for the big pipes for sewage and what have you, this again would bring down the initial cost of the house.

But as I say, these too are matters of Government policy, and they are not our concern. You asked for the various items that go into the present high

cost of housing, and this is one of the very substantial items. Some provinces are only beginning this process of allowing municipalities to press the developer to do a number of things which normally were municipal expenditures and obligations.

Senator LAMRERT: Is there a personal covenant of the individual purchaser in the mortgage?

Mr. BATES: Yes.

Senator LAMBERT: If that purchaser has had a substantial loan on his house and he wants to sell it, is he bound in any way by the personal covenant?

Mr. BATES: No.

Senator LEONARD: I wonder whether Dr. Bates understood that question. Wherever the provincial law allows the personal covenant, the mortgagor is on the personal covenant. Is that not right?

Mr. BATES: This would be true in Ontario, for example.

Senator LEONARD: It is true in Ontario, but it is not true in those provinces where no personal covenant is allowed.

Mr. BATES: Yes. This, of course, is outside our control.

Senator LAMBERT: But it enters into the element of security of the loan.

Mr. BATES: It enters into the element of security of the loan.

Getting back to the point raised by one senator, I think one of the evidences of lack of responsibility comes when the municipality hands these responsibilities over to a developer and says, "You must have a 66-foot highway in every street; you must have concrete curbs and concrete sidewalks." Municipalities, when they are not paying for these things, can get very luxurious ideas as to the kind of equipment that should be laid down in a street. Many subdivisions in this country could be laid out the same as Rockcliffe, with no sidewalks. Instead, some municipalities are laying down regulations asking for mile after mile of hardtop. It is good business for the Imperial Oil Company; they make more money out of housing than you would imagine. This arises because the municipalities are passing what are their normal obligations to the developer. There is no restraint on expenditures that can go into a subdivision. So, we get very high costs of the umbilical cord under the street, and very high cost of surfacing.

Senator BOUFFARD: Do the municipalities offer any concessions as far as tax are concerned?

Mr. BATES: No.

Senator BRUNT: Taxes are lower as a result of these improvements having been done.

Mr. BATES: They are lower on the whole municipality, but they are higher on the people in the subdivision who have had to pay the total tax. It is not spread over the whole municipality as it would be if it were a normal improvement tax, but falls specifically on these people.

Senator REID: What Mr. Bates says is quite true. I know British Columbia has gone all out in connection with such costs. In my own case, I sold lots for $400, and the man who bought those lots charged $1,500, to comply with the municipal regulations. The assessment pushed up until the burden became almost unbearable.

Senator LEONARD: What is your policy in connection with leasehold land, such as at St. John's, Newfoundland, where a great deal of the property is under lease with an option to purchase? Do you lend on that type of property?

Mr. BATES: Yes.

Senator LEONARD: That overcomes this problem we are discussing now.

Mr. **Bates**: It does not overcome it, it postpones it.

Senator **Leonard**: Indefinitely?

Senator **Burchill**: Mr. Chairman, before we leave the subject of low cost housing—

Senator **Wall**: Low type housing.

Senator **Burchill**: —I think it is worth noting for the record, and perhaps Mr. Bates is not aware of it, that a house has actually been started in the town of Chatham, New Brunswick upon which a loan of $6,300 has been processed. That house is 26 by 37 feet, contains three bedrooms, and is ample accommodation for the requirements of the man who is going to live in it, and we hope it will meet the requirements of that low income class. It is a pilot, an experiment, but plans have been approved and, as I say, the house is actually started.

Mr. **Bates**: Yes, and there is another house in Halifax similar to it. It does not come down to our minimum standards yet, but it has been approved by us. Some 7,000 people in Halifax have already looked at this $8,000 house, and it was only opened last Saturday. Already we have 25 orders in Halifax. So, there is a market for it.

Senator **Wall**: What income would a house like that presuppose?

Mr **Bates**: Here is the story. The construction cost of the house is $7,800. This includes $300 for a septic tank. The lot in Dartmouth is $2,000. So the house came to $10,000. the down payment was $1,650, and the loan $8,400. The monthly carrying charges, including taxes, are $60.

Senator **Lambert**: The cost of that house is what?

Mr. **Bates**: The cost of the house is $7,800.

Senator **Lambert**: Does that include appliances of any kind?

Mr. **Bates**: This is a regular N.H.A. house. This does not include stove, or refrigerator; there is a kitchen cupboard; hot water heating; insulation.

Senator **Lambert**: Have you any average figure of the cost of appliances in the new type of house? I think it is $2,000 in the United States.

Mr. **Bates**: Yes. We have twice made a review in this country. I wrote to new housewives and asked them how much they spent when they went into a new N.H.A. house, and after they had been there for six or eight months, and the figure was remarkably the same, whether one communicated with people in Toronto or in Hamilton. It worked out very close to $1,500. Some were $1,800, some down to $1,200.

Senator **Lambert**: Including light fixtures, bathroom auppliances—?

Mr. **Bates**: Yes, new rugs, drapes, stove, washing machine. They set all these things out for me, and it came very close to $1,500.

Senator **Lambert**: How was that financed?

Mr. **Bates**: Financed on instalment plan, household finance; but mainly instalment plan.

Senator **Wall**: I am going to ask a provocative question. As the demands come in for N.H.A. money, or a direct loan, is there any internal subdivision in the corporation's regulations which would mean that so much is going to be set aside for this, so much money for that, and when this or that part of the money is used up it is not going to be shifted from, say, a low-cost type house here to another area. Or is it all in one kitty, and when the demands come there is no internal subdivision?

Mr. **Bates**: There is no internal subdivision of funds. First come first served.

Senator WALL: Would there be any advantage if Parliament were to make such an internal subdivision?

The CHAIRMAN: I do not believe that question should be asked.

Senator LEONARD: Your available lending is still under section 40, which requires a loan to not be available from conventional sources? There is a control: before the loan application gets to you it must have been turned down, or not have been available from conventional institutions?

Mr. BATES: That is so, in the case of section 40. We are in a residual position behind the other lenders.

Senator WALL: Without documenting a case for universities and dormitories —there are no provisions now under which any university or college could present plans for a dormitory? Could they apply for a loan as other people do for an apartment or something, or for an insured loan, and in effect be able to benefit from some of the money that is provided out of the national treasury for meeting the costs of dormitory buildings for universities? Has anything like that been done by any university or college? Has any application been made?

Mr. BATES: Many. The National Housing Act, as it stands today, cannot include dormitories. We can only lend or insure on self-contained housing units, whether they are single houses or whether they are self-contained apartments. We cannot lend on anything except a housing unit. We cannot lend on dormitories. There is nothing to prevent a university, perhaps, establishing an apartment building for its professors, getting an ordinary insured loan—on its own grounds. This could be done, I suppose. An argument might be made in the case of students on section 16, the limited dividend section; it might be made applicable to university accommodation say for married students who are going to live with their wives in self-contained units. The university could set itself up as a limited dividend company and ask for a 90 per cent loan. But obviously that does not meet the universities' problems. There have been requests to the Government, particularly in the last year, from universities, drawing attention to the fact that in the United States their legislation covers university dormitories, and suggesting that our law should be amended in Canada to do the same. That of course is a matter of Government policy. I would like to remind you gentlemen that the Canada Council has already made grants to universities for dormitory purposes, so the federal Government is already in the field in that sense.

Senator CONNOLLY (*Ottawa West*): Those are grants, they are not loans.

Senator LEONARD: I have seen some sound self-liquidating propositions on the part of universities in respect of university dormitories, and I would suggest that Senator Wall's question is very well put at the present time, and that if the C.M.H.C. were disposed to recommend some from of assistance or some form of bringing their facilities of loaning into that field, it would be well worth while.

Mr. BATES: Well, you will understand that this is entirely a matter of Government policy.

Senator LEONARD: And I would think that you will have to make a recommendation one way or another.

Mr. BATES: If we are asked to.

Senator REID: What effect has the National Housing Act had on private builders? Let us say that a man has a piece of property and he wants to develops it himself. I have heard a lot of people in this position say that they cannot accept the same down-payment that you are asking under Central

Mortgage and Housing Corporation. I was wondering if there were any figures to show how the small individual builder has been able to get along? I find that type of complaint pretty general throughout many parts of this country.

Mr. BATES: I don't understand this. The existence of the National Housing Act lowered the downpayments from what they used to be. They did get the rate of interest down. They produced a longer amortization period. The N.H.A. has directly contributed to one-third of the housing that is going on in Canada, and indirectly to another large portion. It is this that has caused our cities to spread out over the countryside. It is this that has brought into existence all these new builders. They have come into existence by the thousands since 1946. People who were tailors and trimmers and dancers and what have you became builders. And wouldn't this be true also in British Columbia, Senator Reid? Take the Vancouver area.

There has been a great increase in the number of smaller builders and there has been an emergence of some very large builders, contractors who construct 500 houses and upwards. They could not do that in the days when the availability of mortgage money was uncertain and when a mass market was not available to them. I do not say that the N.H.A. created this vast housing market. It was erected by the economic boom, but the National Housing Act did stimulate the market.

Senator MOLSON: Wouldn't the individual builder be just as well off? Surely a man who builds a lot of houses under the N.H.A. scheme makes just as much profit businesswise as he would from building fewer houses?

Mr. BATES: We have no control over the price.

Senator MOLSON: No.

Mr. BATES: The price is entirely up to the builder and buyer. It is a free market and everything suggests that it has been a very lucrative one. Just look at the number of builders who have entered into the business in the past decade.

Senator BOUFFARD: Do you have to supervise the construction of these houses?

Mr. BATES: Yes, we inspect the building.

Senator BOUFFARD: Your inspectors do?

Mr. BATES: Yes. They do this during at least five stages, and it usually works out to six or seven stages.

Senator BRUNT: Did you not at one time have a regulation fixing the price?

Mr. BATES: Yes.

Mr. BRUNT: Why was it taken out?

Mr. BATES: Because it is a free market and a capitalistic country. We have private enterprise.

Senator BRUNT: Did you think it was a little socialistic?

Mr. BATES: The reason it was taken off in 1954 was that by that time the tremendous shortage in housing was not so pressing. The rent restrictions were moving off and it seemed about time to let the market float. There was really no change in builders' prices when the price level was taken off. There was no sudden increase in prices. It just floated at that level, but I think it was regarded as being desirable to get back to the private entrepreneurial market, and the time was then right.

Senator BRUNT: Do you make the appraisal of each of these houses or do you leave that to the lenders?

Mr. BATES: We make the appraisal for the lenders. They ask us how much we will lend on a particular house, and each house has to be appraised by an appraisal staff. An appraisal and an inspection are two fairly expensive operations.

Senator SMITH (*Queens-Shelburne*): Would your files show whether or not there was a large number of cases in which the private lender's appraisal of a house was higher than that of your own people? Do you have much of a quarrel with the private lenders over the price value?

Mr. BATES: Not much. There were a good many differences of opinion in 1954 when we got into this business first, but today there are very few differences. One of our problems at the time was the scarcity of appraisers in Canada. We do not have a school which trains appraisers, as they do in many countries, and in order to get into this business we had to bring in a substantial number, I think about 60, from England, and of course they were not always familiar with the Canadian conditions and it took a little time to get over some of these problems. We have been quite happy with these men. Unfortunately, we have lost a great number of them to municipalities who have taken them over as assessors, and so forth. We have had to bring in new appraisers from the Old Country. Today there are few differences of opinion. Sometimes a good deal of difference exists between us and the builder as to what the lending value should be. He thinks it should be much higher and very seldom does he think it should be lower. I think I once met a builder who thought the value should be lower, but usually they think it should be substantially higher.

Senator WALL: In the geographical distribution of our lands and dwelling starts, and so on, how do your regulations or practices function? Say I am living in a small community in Manitoba.

Senator SMITH (*Queens-Shelburne*): Like Winnipeg.

Senator WALL: No, say Winnipegosis or Gypsumville, and I buy a piece of land for $300 or $400 and I want to build a house under the N.H.A. What is the practice of applying for a loan, and so on, in small communities like that?

Mr. BATES: Well, if there is a local bank of any kind that is the first point of contact. Most banks do put notices up saying that they make home loans or home improvement loans, as the case may be. This is the first point of contact. People in these areas where there are no banks, actually write to us and we communicate with them. We advise the local branch manager near Gypsumville—

Senator WALL: That is Brandon.

Mr. BATES: —that the person seeking the loan has written to us. We ask him to get in touch with the person. We write a letter to the man in Gypsumville and we enclose a copy of that letter to the branch manager in Brandon, and he gets in touch with the person. It might be done through the local Member of Parliament or through a municipal officer. But there is vast correspondence between our Corporation and people living in small areas. We have instructed our branch managers—and I think I mentioned this last week to the committee—to go to these communities in their travels and to talk to anyone who will listen, a reeve, a mayor, the Kiwanis Club or the Women's Temperance Union, and so forth, about the facilities of the N.H.A., and to talk to the editors of the weekly newspapers and provide them with the information.

Senator CAMPBELL: Would you care to comment on the mortgage market that has developed with respect to the transfer and sale of mortgages? Is that within your experience?

Mr. BATES: Yes. As you gentlemen are aware, the insured mortgage held by the approved lender is a transferable piece of paper. That is, it can be bought and sold by the institution. Since 1954 I think about $138 million worth have been sold by approved lenders. These sales have been made primarily by the banks. When insurance companies and trust companies buy a mortgage they usually hold them to mature them, but about $138 million worth have been sold mainly to pension funds I think, and some to the United States. But the small market is already in existence to that extent, and it is likely to increase.

Senator CAMPBELL: There is an effort being made to develop that market and invest in that type of mortgage?

Mr. BATES: Yes. I do not know how big an effort is being made, because the effort so far has been bilateral, between banker and customer, and banker and some American pension fund.

Senator CAMPBELL: It is substantial; I am rather surprised.

Mr. BATES: Yes.

Senator BOUFFARD: That market exists in the United States?

Mr. BATES: Yes, there is a much bigger market in the United States. In Canada it is somewhat different, there is no agency for the sales of mortgages; there is no intermediary agency in existence yet. We are all hopeful some day there will be such an agency. In the United States this function is filled by a government agency, the Federal-National Mortgage Association. In Canada in our National Housing Act, and our C.M.H.C. act, our corporation has the powers to enter into this market. We have been very reluctant to exercise these powers, and have suggested really that here is a place for private enterprise to come in and fill this gap in the capital market, rather than a government agency do it, as in the United States.

Senator BEAUBIEN: With regard to Senator Wall's question about building in Winnipegosis if the private lenders, such as the banks or insurance companies, will not loan to build a house such as Senator Wall wants in Winnipeg, then the applicant corresponds with you or your associates?

Mr. BATES: Yes.

Senator BEAUBIEN: And if they cannot get a private lender, what chance has a man to build a house in Winnipeg, or any other place of that kind?

Mr. BATES: Well, this will depend very much on the credit-worthiness of the man himself.

Senator BEAUBIEN: I am talking about a man that has an income—

Mr. BATES: If he has the income to carry it, then he will get a loan directly from us, but if he cannot carry the mortgage, then we have to be sorry and say we cannot help him out.

Senator BEAUBIEN: And could he build a house that would suit him and which would not come under your minimum requirement?

Mr. BATES: We will let him build down to the barest minimum requirements. In other words, we will not compel a man in the Winnipegosis to build the same kind of house is in an urban centre.

Senator WALL: Are there any strictures or sanctions as to the kind of builder I have to have?

Mr. BATES: It is a matter entirely between the borrower and the builder himself.

Senator WALL: There are no problems there?

Mr. BATES: We have no black list, or anything of that kind.

Senator WALL: Would you care to comment on the fitness of the distribution of the National Housing Act across the country? Say, when we compare

the number of people in the small rural towns, communities, or farms, are we tending to have too many of our loans go into certain areas?

Mr. **Bates**: No sir; the loans have simply followed the growth. Those communities that have grown have got loans. When you get to static communities where there are no large influxes of population, only minor changes, there is not a demand for new houses.

Senator **Wall**: But you also raised the fact that there has not been any other communication of knowledge of these things, and you have to tell your managers to go out into these communities; so that there is a problem?

Mr. **Bates**: Well, there is an unknown there. I think we all know communities that have not changed really in the past twenty-five years. Some very close to Ottawa have not changed at all in size, with practically no new houses, nothing has been knocked down; there has been a freedom from fires-well-run, nice little communities, so there is no demand for houses. If there had been a few bad fires, a few new gas stations, and so on, that might have resulted in a demand for houses. When a community has remained static there is not the demand. So the loans have followed the growth. It may be that by pushing hard we can get a few more loans in the smaller communities, but we do not expect to get many in a small town.

Senator **Isnor**: I was not clear with regard to the subject of universities, which Senator Wall asked about. Am I to understand that a student council, or a party representing a university, or a university itself, could make application to you on the limited divident plan?

Mr. **Bates**: For self-contained units; an apartment.

Senator **Leonard**: That would not apply to students?

Mr. **Bates**: No, nor to professors. They are not low income families.

Senator **Brunt**: That is debatable, though.

Mr. **Bates**: I was one. I know that a university might argue that students are in the low income class and that therefore Section 16 could be made available, but these would be self-contained units, not dormitories; the act does not permit us to finance dormitories.

Senator **Isnor**: Have you jurisdiction at all when you say—

Mr. **Bates**: No jurisdiction. The act is quite plain, it is for housing units, self-contained.

Senator **Molson**: Your loss experience, your claims experience, has been extraordinarily good to date, has it not?

Mr. **Bates**: The same as the other lenders.

Senator **Molson**: Yes, but I was just wondering if that is partly because of the method under which the whole act operates, and if the setup with the combination of the approved lenders and your own organization, and so on, has meant that there has been sufficient investigation, and early investigation of these matters, and that has kept the loss ratio down. In other words, it is a pretty good system?

Mr. **Bates**: Well, the system has improved over what it was in the depression. In the depression it was fairly general, then, that there would be a six monthly period for the payment of principal on mortgages; it was often six months. In many cases it was an annual payment of the principal, or of the tax, and so when people got unemployed, perhaps, this thing could drift on for months until the critical moment came to have to provide a very large sum for taxation and principal. Now we have a monthly payment of principal, interest and taxes, so that if at the end of the first month there is any trouble it is spotted immediately and some steps can be taken to try to help through.

That is, when a man is getting some unemployment insurance some token payment can be made and some arrangements to see him through, and that change in system, I think, has meant some easing of the problem.

Senator MOLSON: That must be on account of the earlier investigation and of the appraising, and inspection, and all those things that have gone into it?

Mr. BATES: This has helped; but the general buoyancy of economic conditions, combined with the monthly payment technique, are the two main factors.

Senator LEONARD: Mr. Chairman, I have another question which perhaps should be directed to one of the other witness rather than to Dr. Bates. Can he tell us something about the pension plan of the corporation, and compare it with the Civil Service superannuation plan, as to contributions and administration of the fund?

Mr. BATES: I think as a general principle I may say that we try to follow the Civil Service Superannuation Act to the last letter. Sometimes we get behind and sometimes we may be ahead, but because we are a Crown company in Ottawa we really have to try to keep our conditions very close to those of the Civil Service. In terms of general principle, this is so. We have these details all spelled out in a document here, but that is the general principle.

Senator LEONARD: Does that mean that the employee pays the same percentage as a civil servant?

Mr. BATES: That is right.

Senator LEONARD: And does the employer contribute the same amount?

Mr. BATES: We contribute 12 per cent to the fund. The fund is looked after by outside actuarial people who make this recommendation.

Senator LEONARD: That is the amount needed to pay the benefits, rather than the fixed amount related to salary.

Mr. BATES: Yes.

Senator LEONARD: So that is similar to the Civil Service Superannuation Act?

Mr. BATES: There is no fixed percentage in the Civil Service. When they run into the red they come back to the Government for an extra payment.

Senator LEONARD: Are the benefits the same?

Mr. BATES: They are the same, because the two funds are interchangeable: anyone working for us can take his benefits into the Civil Service, if he moves there, and a civil servant can carry his benefits straight into our fund. The two are identical.

Senator LEONARD: What is the amount of the fund at the present time?

Mr. BATES: I think it is about $9 million.

Senator LEONARD: And it is actuarially certified as being sufficient to meet the requirements of the pensions that are liable to be paid.

Mr. BATES: Quite. We have a rather odd age structure in the corporation, in that the average age is around 35 years; there are very few older people like myself in it. The ages are bunched up there.

Senator LEONARD: Roughly speaking, the benefit is 2 per cent of salary per year of service?

Mr. BATES: It is identical with the Civil Service.

Senator BRUNT: For a maximum of 35 years?

Mr. BATES: Thirty-five years.

Senator LEONARD: And 70 per cent of the average salary?

Mr. BATES: Quite.

Senator LEONARD: And it is administered by trustees?

Mr. BATES: Trustees.

Senator LEONARD: Who are they?

Mr. BATES: Myself, the vice-president and two outside members of the Board.

Senator LEONARD: And you have power to invest in the same securities that loan and trust companies may invest in?

Mr. BATES: That is so.

Senator LEONARD: You invest in a cross section of securities, and stocks—?

Mr. BATES: No stocks. We invest only in Government bonds, that is federal and provincial securities.

Senator LEONARD: Is the fund audited by the auditors of Central Mortgage and Housing Corporation?

Mr. BATES: The fund is audited by our external auditors. We are investing more heavily now in mortgages.

Senator BRUNT: You are limited in your investments?

Mr. BATES: Twenty per cent of the fund will be in mortgages.

Senator LEONARD: In insured mortgages?

Mr. BATES: Insured mortgages. The yield is about 4.5 per cent.

Senator LEONARD: Your gross yield on the fund is about 4.5 per cent?

Mr. BATES: Yes.

Senator ISNOR: Are you in any way restricted in regard to your investments?

Mr. BATES: We have applied the limitation to ourselves, under the Trustees Act of Ontario. We have accepted their limitations, and that is why we are not in common stock.

Senator ISNOR: You say you have a return of 4.5 per cent?

Mr. BATES: Yes.

Senator ISNOR: You are doing very well.

Mr. BATES: Once you begin to pile up mortgages at 6 per cent it brings the average up very rapidly.

Senator BOUFFARD: Does the corporation also work for other Government departments?

Mr. BATES: Yes, we work for various Government departments which require housing. We act as agent for these departments, and they must get the funds from Parliament through their own vote. We have worked for the Department of Transport, the Department of National Defence, the Mounted Police, and so on—any department requiring housing. We design the project according to their wishes; we put out tenders, supervise construction, payments and so on. For this we get the small fee of around 2 per cent— they don't pay very well.

The CHAIRMAN: I have a motion to adjourn. Before we break up may I say that the committee will meet next on June 26. In the meantime I will be in touch with the Steering Committee, but may I say now that even though we have heard from Mr. Bates, we would like to have him back after we have heard other witnesses.

May I thank Mr. Bates and express our appreciation to him and his officials for having given the committee a good background of information on this important subject.

Hon. Senators: Hear, hear.

—Whereupon the committee adjourned until June 26, 1958.

1958

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE

on the Report of Central Mortgage and Housing
Corporation for the fiscal year ending
December 31, 1957.

No. 3

THURSDAY, JUNE 26, 1958

The Honourable C. G. Hawkins, *Chairman*

WITNESSES

Mr. John Caron, Vice Chairman, Housing Committee,
Canadian Construction Association.

Mr. S. D. C. Chutter, General Manager, Canadian
Construction Association.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1958

Extract from the Minutes of the Proceedings of the Senate Wednesday, June 11, 1958.

The Honourable Senator Aseltine moved, seconded by the Honourable Senator Quinn—

That the names of the Honourable Senators Brunt, Emerson and Thorvaldson be added to the list of Senators serving on the Standing Committee on Finance.

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate

THE STANDING COMMITTEE ON FINANCE

The Honourable C. G. Hawkins, *Chairman*

The Honourable Senators

Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Burchill
Campbell
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Dupuis
Emerson
Euler
Farris
Fraser
Gershaw
Golding
*Haig
Hawkins
Hayden
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Pratt
Quinn
Reid
Roebuck
Robertson
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
White
Woodrow—44

(Quorum 9)

**ex officio member.*

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate

TUESDAY, May 20, 1958.

With leave of the Senate,

The Honourable Senator Aseltine moved, seconded by the Honourable Senator Pearson—

That the Report of Central Mortgage and Housing Corporation for the fiscal year ended the 31st of December, 1957, be referred to the Standing Committee on Finance for consideration and report.

After debate and—

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, June 26th, 1958.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.30 a.m.

Present: The Honourable Senators Hawkins—*Chairman,* Barbour, Beaubien, Bouffard, Brunt, Connolly (*Halifax North*), Connolly (*Ottawa West*), Crerar, Dupuis, Euler, Haig, Horner, Isnor, Leonard, McKeen, Molson, Pearson, Pratt, Reid, Robertson, Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson, Turgeon and White—25.

In attendance: The official Reporters of the Senate.

Consideration of the order of reference of May 20th, 1958, was resumed.

The following representatives of the Canadian Construction Association were heard and questioned by members of the Committee:—

Mr. John Caron, Vice Chairman, Housing Committee.

Mr. S. D. C. Chutter, General Manager.

At 12.30 p.m. the Committee adjourned until Thursday, July 3rd next, at 10.30 a.m.

Attest.

JOHN A. HINDS,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, THURSDAY, June 26, 1958.

EVIDENCE

The Standing Committee on Finance, to which was referred the report of the Central Mortgage and Housing Corporation for the fiscal year ended 31st December, 1957, met this day at 10.30 a.m.

Senator HAWKINS in the Chair.

The CHAIRMAN: Gentlemen, we have a quorum. Will you come to order, please?

We have with us this morning Mr. John Caron, who is Vice-Chairman of the Housing Committee of the Canadian Construction Association, and Mr. S. D. C. Chutter, who is the General Manager of that organization. Mr. H. J. Ball intended to be present, but on account of his having had some very bad news in connection with his son in France, who was in an accident last night, he finds it impossible to be here; and he has asked to have his regards extended to you.

Now, without any further talk about this, I would call on Mr. Caron, who has a brief of which, I think, you all have copies, and I would suggest that it might be better if he could proceed with the reading of his brief, and have some questions afterwards.

Mr. JOHN CARON: Thank you, Mr. Chairman. It is my pleasure to thank this committee for giving us the opportunity, on behalf of the Canadian Construction Association, to present this brief. I am going to ask our manager, Mr. Chutter, to read it. I think that is the quickest and best way to get the meeting going.

Mr. S. D. C. CHUTTER: Mr. Chairman and gentlemen: The Canadian Construction Association has greatly appreciated past invitations to submit its views to Parliamentary Committees concerning the Dominion and National Housing Acts and welcomes this opportunity to comment upon the 1957 Annual Report of Central Mortgage and Housing Corporation and on our national housing legislation.

The Association was incorporated in 1919 and has a membership of over 1,150 leading firms in the construction industry throughout the country and forty-seven affiliated local and provincial construction association with an additional membership of roughly 8,500. The C.C.A. represents those engaged in all phases of construction activity, including general contractors and builders, trade contractors, municipal contractors (roads, services, etc.) and manufacturers and suppliers of construction materials and equipment.

For several years prior to 1958 the C.C.A. Housing Committee laid particular stress on three factors:

1. The original intent of the National Housing Act of enabling people with modest incomes to own their own homes was not being realized.
2. Housebuilding has progressed from a simple matter of a man assembling a house to an extremely complex operation in which the builder is but the focal partner. The various levels of government, availability of mortage funds and land, design etc., are other key factors.

3. Housing needs and concepts vary considerably from one region to another and in accordance with the size of the community. A flexibility in the approaches taken to alleviate the problem is therefore essential.

The above three points will form a basis for much that follows in the way of comment on the period under review in the C.M.H.C. Annual Report and on the National Housing Act, in accordance with the terms of reference given to your Committee for this inquiry.

Review of 1957

1957 was a difficult year for the housebuilding section of the construction industry and demonstrated the very considerable way in which the level of residential construction is dependent upon government policy. Had it not been for the timely and vigorous approach to the problem of a shortgage of private mortgage funds by the Federal Government in August, it is apparent that the volume of housebuilding and employment would have been much lower during the fall and winter months. Like most years, 1957 was affected by a number of conflicting influences in the housing field; some good and some bad. On balance, the favourable factors had won out by the end of the year. Completions rose to over 117,000 compared to a predicted total of 100,000 and the large number of housing starts in the second half of the year and a predicted decrease in competing demands for investment funds gave promise of an increased housing program in 1958.

In addition, amendments to the National Housing Act long advocated by the C.C.A. were adopted, providing for lower down payments, higher debt service-income ratios and mortgage funds for those with modest incomes. There was also an indication that lending values would in future more nearly approximate the actual construction costs of new homes and, effective the end of 1957, the essential differences between C.M.H.C. "Building Standards" and National Building Code housing standards were eliminated. Both these developments were also in keeping with past recommendations of the C.C.A.

The appointment of an Advisory Housing Committee to C.M.H.C., as provided for in Section 34 of the National Housing Act, has not as yet taken place. In its absence the C.C.A. invited national organizations representing the other key factors in the provision of housing to participate in a conference to discuss ways and means of increasing the opportunities for the under-$5,000 a year income group for improved housing. The response from the various associations was excellent, the Minister of Public Works kindly agreed to open the conference and the President and other senior officials of C.M.H.C. provided much useful information in their capacity as observers. The initial two-day conference was held in mid-November 1957, and delegates were of the unanimous opinion that the exchange of information, experience and viewpoints between members of the construction industry, governments—both federal and municiual—finance and the other partners in the nation's housing program serves a most useful purpose. Housing remains Canada's most serious social problem and it is vital that the main interests involved should fully understand each other's positions and pool their efforts to reach solutions to the greatest possible advantage of the Canadian people.

The increased interest in government circles, the press and the public in general during the year to the Association's plea that opportunities for home ownership be improved for those whose annual incomes are less than $5,000 a year was most gratifying. As was pointed out to the House of Commons Committee studying the 1954 Bill to amend the National Housing Act, the original intent of our national housing legislation was to help those with modest incomes to own their own homes but relatively few in this group were able to obtain N.H.A. loans. By mid-1957 the average N.H.A. loan was issued on a house costing about $14,600 to a person aged 35 with an income of over $5,800.

However, the Federal Government announcements on August 21st and November 26th, 1957 concerning the allocation of National Housing Act funds directly related the moneys to smaller housing units and the averages for loans in this group by the year end were reduced to $12,509 age 33 and $5,026 respectively.

The close of 1957, then, saw improved financing arrangements, N.H.A. mortgage funds earmarked for the "forgotten man", a carryover of some 72,500 units under construction and indications of an easing of the "tight money" situation which had previously brought about a relative scarcity of funds for N.H.A. mortgages and municipal services. The prompt response by prospective homeowners to the agency loan program for low-cost units, the heavy immigration program of 1957, the backlog of housing needs in Canada and the growth and migration of our population gave further indication to the magnitude of the housing market. The relative scarcity of serviced land, especially in the large urban areas, remained a major problem.

Subsequent Developments:

The agency loan program was suspended in April 1958 when C. M. H. C. virtually ran out of funds. Indeed, loans for rental projects under this plan had been cut off even earlier in the year. In May, however, Parliament allocated another $350 million to the Corporation to finance directly various types of low-cost housing in cases where private mortage funds are not available. This residual role for C.M.H.C. funds reflects the current increased interest in residential mortages by the private lending institutions. House-building activities have shown a notable general increase so far this year and it would appear that the predictions that the previous record number of starts of over 138,000 in 1955 would be exceeded in 1958 will be borne out.

The C.C.A. Housing Committee has been very interested to learn of the Federal Government's new proposal to make mortgage funds available for a structurally sound but more basic type of house for which there is a demand in the smaller communities. The average annual income of those obtaining homes under the agency loan program approximated the $5,000 level. The further widening of the scope of lending operations now being contemplated so as to include families of even more modest incomes is very much in keeping with the objectives which brought about the establishment of Canada's national housing legislation in the first place. Further announcements are therefore awaited with interest.

The Association has also been pleased to note the increase in interest in both the home improvement and community improvement, or "urban renewal", Sections of the Act. There are obviously many economies to be gained through the proper repair and modernization of existing houses and although the decayed cores of our urban areas may have to be torn down, at least the existing municipal services can be used for the new buildings which replace the old. A valuable by-product of the home improvement program which deserves widespread endorsement is that it has stimulated wintertime employment since most of this type of work is not affected by questions of climate.

A second C.C.A. Housing Conference was held in Ottawa last week. It followed the same pattern as the initial conference, but had an enlarged attendance in the form of representation from consumers and community planners. In reviewing the developments which had taken place during the seven-month period since the initial conference, delegates concluded that the factors of land cost and availability are generally more of a problem than actual construction costs or, currently, the availability of mortgage funds. It was also the concensus that greater emphasis should be given to multiple-type rental and ownership projects in the larger urban areas and that the difficulty reported by municipalities in providing feeder watermains and trunk sewers

constituted a fundamental barrier in many centres to the construction of lower cost housing units. A copy of a statement released at the close of the conference is attached to our brief.

Recommendations and Comments:

The main C.C.A. policies concerning the National Housing Act are summarized briefly in the Housing Resolution adopted at the Association's Annual Meeting in January 1958 a copy of which is attached to our brief.

The following remarks are designed to furnish amplification:

(i) Home ownership shoulld be encouraged:

In recent years a good many Canadian families, although eligible for an N.H.A. loan from an income standpoint, could not obtain one from the lending institutions because of a relative shortage of investment funds. The "agency loan" program and the present system whereby C.M.H.C. may make direct loans if N.H.A. loans from private lenders are not available to eligible borrowers have done much to overcome the above problem.

Continuing attention to this aspect of the housing program is strongly urged since it has long-term as well as current aspects. The development of a home-ownership market for those with modest incomes is not only very desirable in the social sence but will also be one of the main factors in the maintenance of a high volume of residential construction, which in itself is so important to the Canadian economy.

The construction industry has of course a great responsibility in meeting this challenge through the development of well-constructed and economical houses and their effective merchandising in the face of aggressive competition from consumer goods, cars, entertainment and travel. It should be emphasized, however, that the builders have to work under policies and conditions that are not of their own making and over which they frequently have little or no control. Moreover, the saving of even $1,000 in construction costs through new designs, materials and techniques may easily be wiped out by an increase in land cost of interest rate. The establishment of higher standards in specifications and town planning controls may well be desirable but they also result in higher initial prices to the house-buyer. The tendency to require contractors to service the land rather than to have this work performed by the local municipality is also reflected in higher sales prices and larger mortgages. The provision of home ownership opportunities is therefore a joint responsibility.

Should the supply of investment funds for N.H.A. houses increase, there is still considerable scope for extending the provisions of the Act to facilitate home ownership for families with modest incomes. The terms of the Canadian legislation, for example, are more stringent than the equivalent legislation in the United States of America where down payments and carrying charges are lower; mortgages can be obtained on existing houses; and mortgage interest and municipal taxes may be deducted for income tax purposes.

The Association would also like to reiterate its recommendation that a specific Home Savings Program be promoted to help people accumulate enough money for their down payment and so overcome what is usually the greatest barrier to home ownership.

(ii) It is recommended that assistance should be given in the financing of feeder watermains and trunk sewers for low-cost housing projects.

Many municipalities find it very difficult to finance the installation of services, particularly the "big pipes" for water and sewage. If builders are required to supply them, the cost per unit when included in the mortgage increases the down payment and carrying charges and many families are prevented from buying a home. Federal funds are available for local services

under the land-assembly provisions of the National Housing Act and provincial assistance is available in some areas. The provision of major services in the larger cities, however, is excluded. An extension of the provisions of the National Housing Act, outright grants for a limited period and low-interest rate loans have been suggested as possible alternative courses of action. Any assistance along these lines would be most helpful in overcoming a serious barrier in many centres to residential construction, especially of a low-cost nature.

(iii) It is recommended that N.H.A. provisions for multiple-unit projects should be made more attractive to investors.

Notwithstanding the advocacy of encouragement to home ownership in (i) above, it must be recognized that it is desirable that more rental projects be built in urban areas in Canada. Approximately 70% of Canadian dwellings are owner occupied. This percentage ranks with the highest in the world and demonstrates the preference for individual houses held by Canadians. At the same time, the relative shortage of serviced land and the expensive problems of "urban sprawl" in most of our large cities inevitably mean that greater emphasis will have to be given to apartment blocks, row housing and semi-detached houses, in such area.

In general, private funds are available for high-rental projects where there is a demand for this type of accommodation and the provisions of the National Housing Act for limited-dividend companies are available for low-rental projects where the tenants are subject to income qualifications. The latter type of project, however, is not designed to attract investment funds in the ordinary way; sponsors are usually service clubs or other non-profit organizations.

Whereas the size of the N.H.A. loans available for individual houses was increased last year, no accompanying increase was made in the size of the loans for rental projects. Moreover, it is recommended that the Federal Government give consideration to the granting of loans for low-cost rental units on a similar basis to the previous agency loans available for this type of project in cities where there is a need for this type of accommodation.

It is also noted in passing that multiple-unit housing projects need not be on a rental basis. Home ownership and a more economical use of land are both possible and it is likely that there will be an increase in this type of arrangement for multiple units.

(iv) The National Housing Act provisions for public housing and urban redevelopment are considered to be satisfactory in their present form.

The C.C.A. advocated as a social measure, a modest program of subsidized, low-rental housing prior to the major revision of the National Housing Act in 1949. The Association believes that the present provisions are quite satisfactory and notes that the Municipal and Provincial Authorities are becoming increasingly aware of them.

(v) Interest rates should be kept under constant review.

The present rate of interest on insured mortgage loans under the National Housing Act is 6% and is related to the rate on long-term Government bonds. It would seem that the 6% rate is necessary at this time in order to attract investment funds from the private lending institutions. The Association would like to stress to members of the Committee, however, the very important effect that changes in the rate of interest have when calculated over the life of a mortgage. An increase of ½% will run into four figures of dollars on this basis. Expressed the other way, a reduction of ½% in interest rates would be the rough equivalent of adding another room at no extra cost. Even if new techniques brought about really substantial savings in construction costs, a reduction in interest rates of ½% or 1% would likely bring about larger savings in total costs, when considered over the life of the mortgage.

A close and continuing watch should therefore be maintained on the possibility of reducing interest rates. There would be sizeable savings even if the reduction applied only to part of the mortgage. For example, inasmuch as governments may generally loan money at lower rates than the individual citizen, it is cheaper if the services are installed by the local authority than if they are included in an insured mortgage under the N.H.A. at 6% or in the amount of a conventional housing loan at 7%. Then again, local improvements could be amortised by a municipality over 50 years, or twice the length of an overage housing mortgage, with ensuing reductions in annual costs.

Similarly, it is submitted that no attemps should be made to create an accumulating asset with regard to the premium paid for the insured loans. Losses under the Act during the whole post-war period have been negligible. While it is admittedly difficult to make predictions for future experience with N. H. A. mortgages, it does not appear that the thought behind the insurance plan of giving needed help to marginal borrowers has been operating to any extent.

(vi) Cooperation of authorities needed regarding land availability and planning controls.

Another factor that is usually outside of the builders' control is the availability of land at a reasonable cost. Much has already been said about the cost of servicing land. A related problem which also seriously hampers housing construction is that of restrictive zoning and planning which are not based in accordance with sound professional advice. Frequently restrictions of a traditional nature on lot sizes, setbacks and against multiple-unit or lower cost houses are not as effective in enhancing property values as over all community and regional planning. Some of the standards set for streets and services are unnecessarily high and the feasibility of erecting modest homes is often a serious problem. The time required to process a subdivision plan may well be one or two years.

(vii) Various resources of the building industry should be used to the utmost.

Reference has been made to the fact that the construction of housing is a responsibility shared by builders with designers, manufacturers, suppliers, financial institutions, governments, research organizations, planners, labour, real estate dealers and others. A deficiency in any one group seriously hampers the efforts of the construction industry or the other partners in the housing program. All must make their full contribution.

Similarly, it is essential that the various types of builder should be allowed to play their full part in the housing program, whether they be the merchant builder who frequently carries out multiple housing projects in the larger urban cities or the builder who works on a smaller scale in centres large and small on a more "custom" basis. The need for housing is great and both approaches should be assisted to the full. Houses erected in large developments or on individual lots will have different yardsticks for basic costs and appraisals.

The above is not intended to suggest that the services of all builders should be utilised, irrespective of efficiency or capacity. Indeed, the fact that the average life span of a housebuilding concern is under five years suggests that some form of minimum qualifications are in order. It is noted that a growing number of builders are providing warranties and are publicizing approved standards for electrical, heating and other installations. Bonded warranties and inspection for owners after completion of the house are other possibilities now being studied by our Housing Committee.

Conclusion:

Delegates at the recent C.C.A. Housing Conference agreed that the construction industry can by conventional methods produce a three-bedroom

house for persons having incomes of $3,600 a year in areas with moderate land costs. These houses conform in all respects to the "Canadian Housing Standards" published by the National Research Council. It was also agreed that Canadian construction methods and on-site costs compared favourably with those of any other country. On a square foot basis, there is better value today than ten or twenty years ago.

The construction industry stands ready to build housing of all types throughout the country and has the capacity to carry out larger programs without serious strain, especially if there is a larger volume of wintertime construction.

A substantial improvement in the housing situation has taken place in Canada during the post-war period. With our population, average incomes and housing standards rising steadily, it is doubtful that we will ever be completely satisfied with the adequacy of our housing. The campaign to bring about steady improvement should be as comprehensive as possible and it is felt that the program of the Minister aiming at 140,000 starts in 1958 could and should be carried out this year without causing undue inflationary pressure, thereby improving the living quarters of a substantial portion of our population, giving more families a tangible stake in their community and providing additional employment both on the job sites and throughout a large number of supporting industries providing the materials, installations and furnishings incorporated into each new dwelling unit. The assistance given by federal housing legislation since its inception has been of considerable value in facilitating the erection of a substantial part of our housing program. A better combination of the various key factors in our housing program should bring even more spectacular results. Various authoritative studies indicate that this will be necessary if we are to keep pace with the growing demand for housing units during the next generation.

Thank you very much, gentlemen.

The CHAIRMAN: Have you anything to add to that, Mr. Caron?

Mr. CARON: No, sir, I have nothing to add to the brief as such. I would like to say that our Chairman, Mr. V. L. Leigh, of Victoria, would have been here, but unfortunately he could not stay over, because of the postponement of this particular meeting.

The CHAIRMAN: Now, honourable senators, before we proceed any further, are there any questions you have in mind?

Senator CONNOLLY (*Halifax North*): I wonder, Mr. Chairman, if we could have an explanation or a description of the home referred to on page 11,—families in the $3,600 wage class, three-bedroom homes?

Mr. CARON: Mr. Chairman, that house was the result of a survey from scratch, including the design of a house carried on by the National House Builders Association. They designed a three-bedroom house with an overall area of roughly 1,000 feet, with no basement, with a hot air heating system. Its particular features, in order to bring its cost down, and not reduce its quality structurally speaking, were, plywood floors, the walls were plaster, there was no basement, but there was what we call a "crawl space" of some two feet underneath. The whole building sat on a normal eight-inch-thick foundation wall, concrete poured, and suitably insulated itself, because the heating system was under the floor, slung to the floor, with openings around the baseboard, and the pipes from the heating furnace were horizontal and only a matter of six feet along or so from the furnace, so the heat found its way up. It had an asphalt shingle roof and storm windows, of course, and was painted.

Senator EULER: What is the cost of such a house?

Mr. Caron: That house in the survey, including the land, worked out to around $8,000. There are one or two extras such as a carport or a bit of a porch over the front door and an asphalt drive which would add another $700 or so. Speaking personally I believe that in this particular case, the profit for that house was much too low; it was $400. Well, to me that is a ridiculously low price. No builder should have to expend the energy, incure the financial risk and fight with municipal, provincial and federal Governments—I use the term "fight" loosely!—for $400; it is not enough profit for a house.

Senator Euler: What would be the cost of the land, take on an average?

Mr. Caron: That type of house should not go on a lot that cost any more than $1,000. But there are cases where comparable houses would be placed on lots going as high as $1,500. But $500 would be about right.

Mr. Chutter: In Hespeler on a $500 lot, what is called the "Hipel House" was built for about $8,000. In Dartmouth they put up this house for $7,800, including land; and twenty-five of these buildings are now being built there.

Senator Connolly (*Halifax North*): That is in the suburbs.

Mr. Chutter: Yes.

Senator Smith (*Queens-Shelburne*): We have information that it cost $7,800, and $2,000 for the land.

Mr. Chutter: In Dartmouth they were reasonable; the land was probably around $500.

Senator Smith (*Queens-Shelburne*): That was not the information we got from Dr. Bates. I made a note of his answer.

Senator Thorvaldson: When you refer to $1,000 a lot, do you mean serviced?

Mr. Caron: Not necessarily. More often it is not serviced. Additional cost goes into the house to put in a well and septic tank system. I would like to add a few more words with reference to this particular house. There is no problem in constructing that house, and even adding a few more dollars to make the profit worth while to the builder, and the mortgage would be such that a man earning as low as even $3,000 a year could afford to buy it. But there is a social problem that comes into the thing. It is very difficult to find a municipality that will allow that quality of house to be built.

In the case of the house built at Hespeler, Ontario, it took quite a while for the National House Builders' Association to find somebody who would allow them to build a house in their municipality. So I mention this additional problem.

Senator Connolly (*Halifax North*): Because it does not conform to building standards in those communities?

Mr. Caron: No, sir. It generally conforms to the building physical standards as such, but it does not conform to Joe Doakes across the street, who thinks he is better than the man who is going to live in that house.

Mr. Chutter: In some areas it would not be allowed because the municipal code would require fireproof construction. While it will conform to the Canadian Housing Standards, the local building codes in a good many centres would preclude its erection, because of local conditions.

Senator Haig: I would like to ask one question. I notice that they emphasize in this report—as well as I could hear what the gentleman read; he did not read very distinctly, but he read it, and I would like to have it a little clearer, so that I could hear exactly what he was emphasizing. However, I did not hear any praise of any private lenders. The only praise I heard was to the effect that the Government was lending money on housing. What is the

reason that the insurance companies, trust companies and private lenders are not lending money under this scheme? What is back of that? Let me tell you that in my city it is practically impossible to get a loan from anybody except C.M.H.C.

Mr. CARON: I will anwser that question to the best of my ability as a builder. Apparently the lending institutions have not the same volume of funds to lend. Therefore, they are going to take the very best ones they can. If they can lend money at a higher rate of interest at a larger volume per loan they are going to do so. That is my impression, and I think that is the answer to your question.

Senator HAIG: I suggest to you another reason. About five years ago the private investor in house building was prohibited from taking a depreciation on income from housing property. The Income Tax Act prohibited it. Prior to that time there was a good deal of investment in housing by private investors. They will let you take depreciation now but if you sell the building in 10 years for more than the depreciated value, they make you pay income tax on that. I live in one of the smallest cities in Canada,—

Senator CONNOLLY (*Halifax North*): Name it.

Senator HAIG: These witnesses wouldn't know it anyway. They are from Ontario. In my city a great many people, men like yourself, builders, invested in two or three houses. Sometimes they would own five houses and they delighted in making that kind of an investment. That sort of thing has all disappeared and I say it is because of the income tax regulation with respect to depreciation that was put on. They get practically nothing now but in most other things you get the benefit of depreciation.

Mr. CARON: I am afraid, Mr. Chairman, I do not quite follow the term depreciation as it has been used. You say, senator, that prior to a certain date the lending institutions—

Senator HAIG: The owners. They can get loans from the local institutions because the value has been depreciated and they are getting the benefit of it. Loan companies make a larger claim against it and get larger payments because they have that depreciation earned and they take that payment into account. I know what I am talking about.

Mr. CARON: I am sure you do, sir. Incidentally, may I ask: did you say that I was from Ontario?

Senator HAIG: I am not from Ontario.

Senator CRERAR: He lives in the "village" of Winnipeg.

Mr. CARON: I am sorry but I had not heard the part about Winnipeg. I was quite sincerely interested in knowing because I like to know where people come from.

Senator HAIG: I have only been here a little while. You wouldn't know me.

Senator CRERAR: I think the point raised by Senator Haig has some validity. I presume it applies to urban dwellers as well, but take a farmer who builds a new house. He cannot claim depreciation on that house on his income tax return but he can claim depreciation on his binder, for instance.

Senator HAIG: Yes, he can.

Senator BRUNT: And he can on part of the house.

Senator CRERAR: What part?

Senator BRUNT: I think he can take depreciation on 25 per cent.

Senator CRERAR: When did that come into effect?

Senator BRUNT: I think it has been in for quite some time.

Senator CRERAR: I will have to take another look at it then.

Senator BRUNT: You take a percentage of the value of the house and base your capital cost allowance on that.

Senator CRERAR: That is within a recent time.

Senator BOUFFARD: It does not apply to anybody else but farmers.

Senator CRERAR: I think the point has been very well taken. The point Senator Haig makes, as I understand it, is this. I built a house a few years ago in Winnipeg. That house depreciates in 30 or 40 years and if I look after it it will be through in 50 years. In other words, there is a depreciation on it each year. I cannot put a claim in my income tax return for a depreciation on that house. That is the point.

Senator HAIG: That is correct.

Senator CRERAR: I think there is something to it.

The CHAIRMAN: You are living in it though, are you not?

Senator CRERAR: Of course I am living in it.

Mr. CARON: It is not clear to me how this would affect the lending institutions. I can see how it would affect the individual who buys a house and eventually sells it at a loss.

Senator HAIG: I was in the house-building business for nine years, from 1922 to 1930. I didn't build very much but we had a payroll of $400,000 to $500,000 a year. I was in partnership with another man, and we never had any trouble getting private funds during all those years. We didn't have to go to anybody. We didn't even have to go to trust companies and life insurance companies, but we did go sometimes and they gave us all we wanted. We told them we had a depreciation of 4 per cent on the value, and they could increase their annual payment by 4 per cent of the value and we would pay it because we would have a deduction on depreciation. We got all the loans we wanted at a good rate of interest.

Senator BOUFFARD: You couldn't get loans for more than 40 or 50 per cent.

Senator BRUNT: Sixty per cent.

Senator HAIG: We got loans for 60 per cent.

Senator BOUFFARD: But in these cases they need a loan that goes up to 90 per cent.

Senator MOLSON: Is it not a fact that this low-cost experiment at Dartmouth is being financed by a private lending institution, the Bank of Montreal, if I am not mistaken? Therefore, as far as this particular act is concerned there is private money available for low-cost housing.

Senator BOUFFARD: That is on insured mortgages.

Senator MOLSON: Yes.

The CHAIRMAN: Probably some consideration is being given to the credit worthiness of the borrower.

Senator MOLSON: It is on insured mortgages.

Senator BOUFFARD: In the last two or three years trust companies, banks and insurance companies have put millions of dollars into these insured mortgages.

The CHAIRMAN: I should not be asking questions but how do they get around the $5,000 income bracket if the loan is on an insured mortgage? It would be interesting to know how that is done.

Senator BRUNT: Perhaps Mr. Bates could give us that information.

Senator LEONARD: There is no difficulty so long as the person for whom the house is being built has sufficient income to carry the amount of the mortgage.

The CHAIRMAN: But generally speaking they do not allow you to build a house for $3600 and get an insured loan on it.

Senator **LEONARD**: I take it the evidence of the witness is that the carrying charges of this particular house would be within the 27 per cent limit of a person earning $3,600 a year. Is that not the evidence you are giving?

Mr. **CARON**: That is correct. In the survey, they designed the house, went to the Central Mortgage, and said, "What mortgage will you give us on that?" With that answer they worked backwards and said, "Fine, a man earning so much is eligible financially to be given this mortgage."

The **CHAIRMAN**: What is all this talk about lowering the income ratio? Maybe we should not be badgering you with these questions.

Mr. **CARON**: I think I can answer that one. We have picked the figure of $5,000. Actually, taking the whole country at large we should perhaps be thinking in terms of about $3,400, because $5,000 is a fairly high figure, and many people who appear to require housing the most and who for the most part are capable of handling the mortgage, that is, have the will and the good faith to carry out the deal, are earning in the neighbourhood of $3,200 to $3,500.

Senator **REID**: Can you not give us exact figures?

Mr. **CARON**: I have not got the exact figures, Mr. Chairman, but the average as I remember it throughout Canada is that people earning in the order of $4,200 a year are buying houses whose average cost to them is somewhere between $11,600 and $12,000. Now, that is certainly subject to check, because I am speaking from memory.

Senator **REID**: Are you advocating the U.S. system should be considered here, to buy a home and obtain a loan?

Mr. **CARON**: It is not recommended as such but we suggest that it is easier for a person in the United States under comparable regulations to obtain housing. Personally I think that the man buying a house must have a sufficient equity in the house to make him a responsible person, a responsible signer of that mortgage.

Senator **CRERAR**: What percentage would you put it at?

Mr. **CARON**: I would put it at about eight per cent more or less, sir.

Senator **CRERAR**: That is, for a cost of $5,000 you put up $400?

Mr. **CARON**: Mathematically, that is correct.

Senator **EULER**: Beside the lot?

Mr. **CARON**: No, including the lot. Now, what is happening is that a lot of people are buying houses and putting up anywhere from ten to eleven per cent cash, but of that cash oftentimes fifty or sixty per cent of it is some private loan by some member of the family, so that actually he is pretty close to the line in so far as the equity is concerned.

Senator **CRERAR**: In that case, if he got a private loan from his brother it would not affect his security?

Mr. **CARON**: No; I agree.

Senator **SMITH** (*Queens-Shelburne*): I would like to ask the witness a question in connection with a statement made in the brief on page 12, to the effect that 140,000 starts in 1958 could be made without causing undue inflationary pressure. The first question is, by "inflationary pressure", does that mean price inflation or currency inflation?

Mr. **CARON**: Price inflation.

Senator **SMITH** (*Queens-Shelburne*): Would you care to comment as to the possibilities of currency inflation in view of the Government financing that must be done this year of almost $3½ billion?

Mr. **CARON**: I am not sufficiently competent, Mr. Chairman, to answer that. I would like to put one remark in here. Those figures are the feeling

of the minister and our conference that we had last week. My personal feeling is that if Montreal is any criterion I do not think we could sell that many of them. If that many houses are built you will have a glut on the market and they are not going to sell.

Senator SMITH: You mean to say there are not enough family formations and people who will be in a position to buy houses to take care of that many?

Mr. CARON: I would put it this way, that there is not sufficient buying power—period. Just how that is brought about, I do not know.

Senator SMITH: Do you think that situation might be changed if an emphasis were put on low-cost housing? I am glad to hear that you feel the desirability of taking into account the man with the needy income, because $3,600 is far from average in some parts of the country. Do you think that if somehow emphasis could be put on the lower type house, that that number of starts, namely, 140,000 might be slowed up by the economy?

Mr. CARON: Yes, I do.

Senator SMITH: One more question: I would like a little further comment on a statement which is made at the bottom of page 9 of the brief, which says, "it is submitted that no attempt should be made to create an accumulating asset with regard to the premium paid for the insured loans." We had evidence the other day from Dr. Bates to the effect that the amount in the fund is now $30 million, and that if we had three per cent defaults this fund would be wiped out. Would you care to comment on the opinion Dr. Bates expressed here?

Mr. CHUTTER: When the insurance premium was put in the industry asked that a close check be kept to see that the extra expense was warranted. A lot of our association feel that the national housing legislation was intended to help what you might call marginal cases of people who could not afford a conventional mortgage. The number of foreclosures has been negligible in the post-war period. Under the insured loan system I think there have been seven loans, or something like that, which just had to be given up by the borrower. Our people feel, I think, that if the legislation is to do a real job the Government should anticipate that there will be a number of people who cannot continue to carry their mortgage. This is to help the marginal people. A check should be made as to whether or not, having regard to the insurance premiums which have already accumulated, $30 million will be sufficient. It is felt that the administration of the act should contemplate losses, if it is to do that job that is it intended to do. It should not be reckless, of course; but this clean record of practically no losses may be or may not be a thing to be proud of.

Senator McKEEN: Is not one of the reasons of low losses due to the fact that when a man was in default on his mortgage, he sold his equity and the new buyer assumed the mortgage and continued the payment on the property? So in this case, although the original owner would be in the position of having to default he avoided this by a sale. But if as the witness says here he does not think we can handle or market 140,000 starts, may not the situation arise where these original buyers on mortgages will not be able to sell out, and then there will be a calling on the insurance fund which may deplete it completely, as it would only take 3 per cent of mortgages to cause this to happen?

Senator REID: On page 5 of the brief, dealing with municipalities and the problem of providing feeder watermains and trunk sewers, which it is stated constitutes a fundamental barrier in many centres to the construction of lower cost housing units. My question is, are you merely drawing our attention to that, or are you advocating that the dominion Government should interest itself in matters of that kind?

We feel that the Government through the C.M.H.C., should interest itself in that problem; in other words, to finance the small municipalities in the installation of their trunk sewer systems.

Senator BRUNT: By subsidies?

Mr. CARON: Definitely not.

Senator BRUNT: How ?

Mr. CARON: By a straight loan.

Senator BRUNT: The Ontario Government has that set up already for you now. The Government has set up a corporation in Ontario for the purpose of purchasing bonds issued by a municipality for the purpose of financing service installations. Do you want a duplication of that service from the Dominion Government? Is that what you are advocating?

Mr. CARON: That is one possibility.

Senator BRUNT: There is another thing. If the Dominion Government is going to do this, then is the landowner and developer, and in many cases the landowner and developer is the builder, going to cut his profit on the land down to 10 per cent? Would you advocate that also? When you come to the Government on the one hand asking for assistance what are you willing to contribute as a builder-owner and land-developer?

Mr. CARON: Mr. Chairman, I have an answer to that. You have spoken, Senator Brunt, I think rather generally when you say that most housebuilders are the land-developers. In my area that is not the case.

Senator BRUNT: It is the case in my area, which is around Toronto.

Mr. CARON: Well, it is certainly not so in Montreal. Our problem in Montreal is that the cost of land has rocketed. There has been no control. I do not say there should have been control but nevertheless there has been no control at all, and a great deal of foreign money has come in and bought up this land and they are just hanging on to it waiting for me to come along and pay them a tremendous price in order to develop it.

In my case, as the builder, not now but during a period since the war I actually have built houses with a selling price that was controlled. In other words I was controlled but the owner of the land was not.

Senator BRUNT: But you are not controlled now.

Mr. CARON: No.

Senator BRUNT: And now is the time you are asking for this assistance. What I want to know is what have you to offer in return?

Mr. CARON: We are not asking for assistance in a direct sense, we are asking that the municipalities be assisted in financing these installations because, and again returning to Quebec, I can think of one particular municipality which could not sell their bonds to obtain the money for service installations.

Senator BRUNT: But still that is for the benefit of the builder.

Mr. CARON: It is for the benefit of the man who is going to purchase the house.

Senator BRUNT: But he is not here with the brief, it is the builder who is here wth the brief today asking for this assistance and benefit. Now, what have you to offer in return? I think we should have something. Are you going to cut your profit down, cut down the price of the land so that everybody will be making a contribution to lowering the cost of housing.

Senator SMITH: Mr. Chairman, does that not follow from what the brief says? Does that not cut the cost of the serviced land down, to the benefit of the person who wants to buy a house?

Mr. Caron: That is the answer, thank you Senator Smith.

Mr. Chutter: May I say, Mr. Chairman, that if the builder is going to be called on to install the "big pipes" this automatically increases the size of the mortgage and precludes the family with a modest income from financing the purchase of accommodation. The background of this recommendation came from the conference which was attended by representatives of all the key groups in the housing industry who sought to earmark all the handicaps to the construction of lower cost housing. It is a key factor, that the municipalities, even though there are various methods of financing open to them, say that they are not able to install these large sized pipes. It is a very expensive operation. Perhaps they could do it in many cases but nevertheless it is a big problem for them. If you try to earmark your problems this one of the installation of major services is a key one. The Dominion Government has already provided for sharing the cost of land assembly with regard to local services in conjunction with the provincial and local authorities. The Federal Government is prepared to advance 75 per cent of the cost of these smaller pipes under certain conditions.

As Senator Brunt mentioned a short while ago there is provision in Ontario whereby the Water Resources Commission finances the installation of big pipes for water but that is usually restricted to the smaller municipalities. In the larger urban areas this is still a fundamental problem. We offer three alternative methods of solving this problem in the case of low cost housing: first, that the National Housing Act be expanded so as to cover not only local services but the larger services as well; secondly, through the form of an outright grant; and thirdly, through the provision of lower interest-rate loans to the other Governments. These are three alternative suggestions which have been discussed on previous occasions with the Department of Finance, the Minister of Public Works and C.M.H.C. officials for some time.

Senator Isnor: Mr. Chairman, I want to ask a question but first I want to make a comment in connection with the statement made by the witness to the effect that he does not think 140,000 units can be consructed and sold this year. May I point out that there were 138,000 units constructed and sold, with very little loss, in 1955. With financial arrangements better today than ever before surely we can construct and sell the additional 2,000 units. That is my thought.

Mr. Caron: Mr. Chairman, in answer to that, may I say that that was in 1955. I am sure that Senator Isnor has seen the Wall Street Journal reasonably frequently of late and if he just takes a look at that he can realize the value of my argument in the fact that we could construct them but we could not sell them. May I say Mr. Chairman, that I am speaking personally on this and not as a representative of the construction industry.

Senator Isnor: You say conditions are not as good today for the selling of 2,000 additional homes as compared to conditions in 1955?

Mr. Caron: I say so, yes, particularly in the urban areas, and by urban areas I mean such places as Winnipeg, Vancouver, Toronto, Montreal.

Mr. Chutter: I think there is quite a general feeling in the housing industry that it would be pretty hard to maintain our housing program of 140,000 units of the type of medium and higher cost units selling in the post-war period. If the lower cost housing market could be expanded, however, there is a very large potential market there which would enable the maintenance of a very large volume of house building activity even exceeding 140,000 units. In other words, the demand is there, but in the past, the factors which are necessary in combination to bring this about have not been there. Either the funds have not been available or one or more other key factors have not.

This is in essence the main thought expressed in our brief: it is necessary to consider all of the key factors you need in combination to provide a large, long-range housing program. If that type of market for lower priced homes can be developed, I think the feeling of our association is there would be no difficulty in maintaining a larger housing program. In fact, most of the authoritative analyses on housing volume predictions, such as that of the Gordon Commission, indicate a program of from 180,000 to 200,000 units a year being required 10 or 20 years from now, when the current school children are married and building up their own families and need housing. This is the potential demand which would appear at that time.

Senator ISNOR: You must bear in mind the Government has set no standards so far as these 140,000 units are concerned.

Mr. CHUTTER: That is true, yes.

Senator ISNOR: Mr. Chairman, the question I really wanted to ask was, what would be the average so-called service charge in dollars and cents, referred to in the brief?

Mr. CARON: I take it, Mr. Chairman, the senator means for water, sewer and street.

Senator ISNOR: Yes.

Senator HORNER: And land?

Senator ISNOR: No, just the service charge.

Mr. CARON: As a rough average, Mr. Chairman, I would say the cost per property for 50-foot frontage—that is a little on the small side, but it is the one I have been dealing with for the most part—would be in the order of between $1,700 and $2,000, which includes the sewer main, the water main, the sidewalk, and half of the cost of the road and pavement in front of the house.

Senator ISNOR: In other words, if the service charge were eliminated you could increase the amount of the mortgage by $1,500 to $2,000?

Mr. CARON: I don't follow your questions.

Senator ISNOR: You said that you are looking for assistance from the Government, and you ended up with the suggestion that you do away with certain charges to help the municipalities, one of them being the service charge.

Mr. CARON: The trunk service charge. We are thinking primarily in this instance of where a man wants to make a subdivision in a place that is some distance removed from the existing trunk sewer, and there is a gap between the two, the cost for which the municipality could not tax the property owner, and could not possibly tax the individual who happened to own the property located in that gap. We are thinking of federal Government assistance, financially speaking, by way of a loan; the owner would pay it back as he does in his improvement taxes, for trunk sewer assistance that would stretch up to even a couple of miles.

Senator ISNOR: But you do say in your brief that the service charge is taken into consideration when the application for loan is being considered.

Mr. CHUTTER: I think, sir, the distinction made was that in the past the cost of services has been borne by the municipality and repaid by local improvement taxes; in other words, the municipality would install various services and get payment back over a period of years through local taxes.

Senator ISNOR: Right.

Mr. CHUTTER: So that when a person went to buy a house, the mortgage would be based only on the cost of the house itself; he would put up a certain percentage as down payment, and he would pay the municipal taxes for the cost of the services. There has been a growing tendency for more and

more municipalities who are experiencing financial problems of an overall nature, to say to prospective builders, "if you are to get a permit for this project you must install all the services." This means that the cost of services is added to the cost of the house and bundled together in the mortgage; and instead of the down payment being, say, 10 per cent of the cost of the house, it is now 10 per cent of the cost of the house and the serviced land. This increases the down payment and the carrying charges, and it also means that a great number of people are cut out of the housing market by reason that they can no longer qualify under the limitation of the 27% debt services to income ratio if you throw the cost of services into the calculation.

Senator ISNOR: I am putting it in the reverse, and saying if that is eliminated your mortgage could be large, because the cost to the builder would be less.

Mr. CARON: The cost to the builder is not less; somebody has to pay it some time. But if it is financed through the local improvement tax system, then the mortgage is lower at the outset.

Senator PRATT: Mr. Chairman, reference has been made to the gearing of the instalment financing to incomes of $3600 and upward with 27 per cent as the qualifying percentage to take up the amortization and expenses.

Mr. CARON: That is to amortize a loan, to pay fire insurance and taxes.

Senator PRATT: I have just made a calculation that a program involving 140,000 units a year, on the basis of Canada's present population, and taking an average of five per family, would mean that 4 per cent of the homes in Canada could in one year come under instalment obligations of 27 per cent of income and continue as such for 20 or 25 years. That indicates to me a pretty inflationary condition. At an average cost of $12,000 per unit, this would run to nearly $1,750 million in one year.

I am all for a house building program, but I think we have been gathering too many figures and looking at too many reports, good as they are, such as the Gordon Report, telling us what is going to happen in Canada 20 to 25 years hence. We are apt to adopt all at once too much of the long range program which, in terms of pilling up debt, is inflationary. Long range planning we must do, but thinking in terms of 4 per cent of all families of Canada incurring, say, $1,740 million in loans every year we operate under this scheme indicates a pretty inflationary state of affairs.

Senator WALL: Mr. Chairman, could I ask for a clarification on some of the generalizations which appear on page 2 of the brief. I read these words at the bottom of page 2:

> There was also an indication that lending values would in future more nearly approximate the actual construction costs of new homes.

What is the present problem? What is the disparity between land values and actual construction costs? You have a generalization here: what is the exact problem?

Mr. CARON: Where the house would cost the builder $9,000, the actual cost before he puts anything in, Central Mortgage would say, from the various factors involved, and perhaps the way the appraiser happened to feel that day—the human factor happens to come into it—"That house should be valued at $8,600 or some such figure." There is your disparity. And when you get a difference of $400 in a house that is going to sell in the neighbourhood of $10,000 or $11,000, it is quite a big factor.

Senator WALL: When you say that that house costs you $9,000, do you supply figures to the person who is doing the adjudicating?

Mr. CARON: Very much so. You are given a form. You apply for a mortgage; the builder applies for his mortgage to build, and there is a breakdown on the back of the form of carpentry, concrete, bricks, and so on along

the line. There is no place in the form, the breakdown for the man's profit, so what he does, he takes his profit, which is going to be so much, and he adds a little all the way down the line, so at the bottom the cost is what he wants to sell that house for. The Central Mortgage and Housing figure has always been less. Whether you put it up at the final price, or whether you put it at the net cost of the house, the figure is always less. You never get a mortgage based on the figures you put on that form.

Mr. CHUTTER: The loan is not based on the actual cost of the house but on the appraised value put on the house for lending purposes. In the past, it was felt that the appraisals were on the low side, and there have been adjustments in the last six months or more whereby more things have been taken into consideration in the establishment of the appraised value, so that the loan has been increased somewhat. That tendency has been helpful.

Mr. CARON: I would like to say, in all fairness to Central Mortgage and Housing, it is pretty close to it. There is not a great deal of difference.

Senator WALL: At the bottom of page 4 you have a fascinating idea,—the ear-marking of national housing funds for specific purposes to meet the intended requirements. That is really what the basic thesis is. How can that ear-marking be extended to meet the needs or the intended requirements in the first place so as to provide money for the person who needs the house?

Mr. CARON: I can answer that by telling you what the Central Mortgage and Housing has already done with respect to what they call agency loans. Now, agency loans were loans from Government funds but released through the lending institution, and they were designed to help the alleged "forgotten man." What they did was to restrict the area of the house to a given maximum number of square feet. You no doubt are familiar with the rental building financing plan known as "limited dividend". There is a case where the prospective tenant's income cannot be above a certain figure, and what interests me is to see just what they do when his income passes that figure, and how they are going to get him out of there?

Senator WALL: I understand that. But the thing that fascinates me is, supposing you have the Central Housing and Mortgage Corporation with $300 million. It ear-marks that money and says, $100 million is going for limited dividend purposes, building purposes, and when the builders or the lending institutions use up the other money, and there isn't any available, then in effect the construction industry would be forced to pay more attention to the areas of construction that they do not pay attention to.

Mr. CHUTTER: I think the reason for this reference in the brief, is that in the past, the intent of the act was not being realized. A person could afford a down payment and the carrying charges but, previous to the agency loan program in recent years, the mortgage funds supply situation was such that he could not find anybody who was willing to extend mortgage funds to him under the National Housing Act. The Central Mortgage and Housing Corporation could only make direct loans in certain size communities. In the larger communities the demand for funds was such that the lending institutions would be pretty selective, and if they could extend a mortgage on a larger house there would be the natural preference to do that, rather than lend on a small house. Therefore, a number of eligible people, though they had the income for financing a house under the National Housing Act, could not get the funds. The small homes program, however, specified that funds would be available for housing units with a maximum floor area of modest size. There was a very heavy demand in respect to this program.

Senator BRUNT: What I would like to refer to is paragraph (vi) on page 10. There are a number of matters there which seem to restrict the providing of houses. Are not all of these matters a provincial and municipal problem, and

has the dominion Government anything to do with holding up a plan for one or two years? They have nothing to do with lot sizes, other than the Central Mortgage and Housing Corporation requires certain definite sizes and these other things that are referred to in detail.

Mr. CARON: They are strictly municipal affairs.

Senator BRUNT: I have one other question and I would just like an explanation about it. Starting at line 7 on page 6 of the brief it reads: "Moreover, the saving of even $1,000 in construction costs through new designs, materials and techniques may easily be wiped out by an increase—" and I am not going to read the next three words because I understand about that—"in interest rate." I would like a further explanation as to that.

Mr. CHUTTER: We have had several examples in recent years when the interest rate has been increased. If you take the overall cost of a home you have to take the whole 25-year period of the mortgage. I remember that in the 1954 hearing there was material supplied by C.M.H.C. showing the effect of increases or decreases in the interest rate spread over a 20, 25 or 30-year mortgage. An increase of ½ per cent say, from 5½ per cent, would amount to an additional $1,000 or more over a 25-year period.

Senator BOUFFARD: This is a carrying charge?

Mr. CHUTTER: This is the overall cost.

Senator BRUNT: Does the average house buyer ever inquire about the overall cost?

Mr. CARON: Only in so far as his monthly disbursements are concerned. We do get the occasional person who is an auditor or a would-be auditor who works it out and says, "My gosh, instead of paying $10,000 back I am paying $14,000 back."

Senator BRUNT: And that increase in the overall cost does not in any way prevent the sale of a house with respect to a man's income?

Mr. CARON: Only in this respect, that it is within the realm of possibility that if a loan, say at 5½ per cent were made it would require a certain capital payment to amortize, and that, multiplied by 12, equals the annual. Then it is increased to 6 per cent. As I say, it is possible that a man's income might be close to the line and he is no longer eligible for an N.H.A. loan on the 27 per cent of income carrying charge basis. Then the lending institution makes a particularly careful credit investigation of that man and I would say that for the most part the advantage is given to him.

Senator BRUNT: That is all, thanks.

Senator MOLSON: It seems to me there is one aspect of this question we have not touched upon, and that is the actual cost of houses in general. I would like to ask Mr. Caron how the cost per square foot of these houses has varied in, say, the last five years? We have been speaking about inflation and the limitations of people to buy houses, but how has the cost of these houses changed?

Mr. CARON: Take a bungalow which sells for $11,500, $12,000 or $12,500, exclusive of the land. Taking the area once and ignoring the basement, that house costs roughly $10.50 a quare foot. Five years ago it cost about $8.50. What has taken place, Mr. Chairman, is that the builders have become more efficient. They have used more power tools, for instance. The price of materials have recently come down but the price of labour has crept up a little so that it is almost even-Steven. It is a little more expensive now per square foot than it was.

Senator MOLSON: You have said $2 more per square foot.

Mr. CARON: Yes, roughly $2.

Senator Molson: It is a good deal more expensive then, isn't it?

Mr. Caron: The percentage profit has not moved and if anything it has come down.

Senator Brunt: What would be the area of an average bungalow that you have referred to?

Mr. Caron: About 1,065 to 1,100 feet.

Senator Brunt: It would be $220, the increase.

Senator Molson: What is the change in the labour cost? You say materials have come down but labour has gone up. What is the increase in labour costs in five years?

Mr. Caron: It is a little difficult to say over a five-year period they creep up about 10 to 15 cents an hour every year in our area.

Senator Reid: What about productivity? Carpenters are not doing half the work they were doing 10 years ago. The same is true of bricklayers.

Senator Molson: Could I get an answer to my question about the cost of the labour content?

Mr. Chutter: Going back to the average cost per square foot over a five-year period, in 1957 the average cost per square foot under N.H.A. was $10.71, whereas in 1953 it was $9.05. So over a five-year period the average price per square foot of an N.H.A. house has risen about $1.66, part of which represents increased standards.

Senator Brunt: Mr. Chairman, might I just correct something I said. My mathematics were bad when I said $220. I think it should have been $2,200.

The Chairman: Yes, sure it should have been.

Senator Crerar: Just a slight error.

Mr. Caron: I am sorry you brought that out. I was patting myself on the back.

Senator Pearson: The cost of land has gone up as well.

Mr. Caron: Oh yes, terrificly.

Senator Pearson: And that increases the cost to the purchaser.

Mr. Caron: Yes.

Mr. Chutter: According to the index of construction wage rates there has been a national average of roughly 20 per cent over the last five years.

Senator Walls: What years?

Mr. Chutter: 1953 to 1957.

Senator Reid: I would like to ask a question as to productivity of the artisans. I know that wages have gone up but I also know from personal experience that carpenters and bricklayers are not doing anything in the way of productivity that they did years ago. What about the productivity of the artisans and other workers? If they do not produce as much it would add to the cost.

Mr. Caron: I can base my answer on my own experience, and I have been in the housebuilding business since the end of the war only.

It is my experience that if a builder can keep sufficiently busy to maintain a reasonably-sized organization where he is using the same men, his product- fluctuates up and down, for instance, and there is no building in winter, and ivity stays level as the cost of the labour increases, but where business in summer you get going again, it appears to be getting less all the time.

Senator Reid: Is it not true that there are unions holding down men to do so many doors or windows, and to lay so many bricks a day? We did four times the work years ago than they do now.

Mr. Caron: That impression goes for any industry. It would appear to me that any time we have a war, the incentive to wark following that war period decreases, and there is a general attitude of ‘let the Government do it’.

Senator Reid: And it add to the costs?

Mr. Caron: Absolutely.

Senator Leonard: Could you give us a rough idea of what percentage of $10.71 a square foot, the cost at the present time, goes to labour on the job, and what for material?

Mr. Caron: Yes, that is about 50 per cent for labour and, 45 per cent for materials and sub-contractors cost (which includes labour naturally) and 5 per cent of what you have forgotten about.

Senator Reid: I must disagree with that statement, when you say on a square foot basis. Do we get better value today?

Mr. Caron: In reply to that remark, which by the way I have heard before, my father’s house having been built by artisans in 1912, I would say that regarding the houses that are selling today at, let us say, $11,000 which in the early thirties were probably selling at $6,000; I reiterate, sir, that the comparable house today is higher grade, it is a better house, the materials themselves are better, and Central Mortgage and Housing specifications are such that we make a better house. Now, I cannot argue that with regard to houses that cost, let us say, from $50,000 upwards. If I may return to my father’s house, where I was brought up, there are certain materials in there, mahogany panelling, and the like, that you cannot get today, but for the $5,000 a year man, for the run of the mill house, I will stack against the old one any time the house that is built today.

Senator Wall: May I ask a question? The Canadian Construction Association has a statement on page 7 of the brief which says, “National Housing Act provisions for multiple-unit projects should be made more attractive to investors”, and it goes on to speak about apartment blocks, row housing and semi-detached houses. In view of the probable developments of multiple-unit projects, has this association given any thought to making this type of multiple-unit project available to owners on some co-operative basis? What is the trend in the thinking, and what are the steps that are being taken to sponsor this type of an idea?

Mr. Chutter: If I may answer that, there are a small but growing number of examples. There are many such building in Europe, but here in Canada there are relatively few. References were made in the brief to examples of that type of ownership, of an apartment, or half of a house, or a unit in row housing. It is on the increase. At the moment these projects are mainly being sponsored by people getting together on a co-operative basis.

Senator Wall: Supposing, for instance, fifty of us get together to build an apartment block, what are some of the problems that would deter people from doing that kind of thing?

Mr. Chutter: We are told by the financial institutions that there is no reason why it should not be done on a greater scale. Probably has not taken place because people are not used to it and it is not part of our tradition.

Senator Bouffard: There are more examples of it in Europe?

Mr. Chutter: Yes.

Senator Reid: For information, on page 7, the brief says, “The terms of the Canadian legislation, for example, are more stringent than the equivalent legislation in the United States of America where down payments and carrying charges are lower.” Could I take it that there is no age limit for a person

buying a home? You would not, for example, sell a man a home if he was over 50 years of age, or would you?

Mr. CARON: Well, there is an age limit.

Senator REID: Why is age limit put in?

Mr. CARON: This refers to lower down payments and lower rates of interest.

Senator REID: But a younger man has a longer period of years to pay off.

Mr. CARON: Well, yes; I do not know what the situation is in the United States; however, in Canada if a man is 55 they take a good close look at him.

Senator PEARSON: Would the position of the low income man be improved if you had a scheme for the remodelling of older houses?

Mr. CARON: We certainly think so.

Senator PEARSON: What I am thinking about is the houses in the central part of the city which are going down greatly in value, and looks, and accommodation, and everything else, but if those were brought up to standard there would not be such a demand for low cost houses in the outside areas, where it is so difficult for a man to get in to his work, and adds to his expenses.

Mr. CHUTTER: It is often more expensive to buy an old house which may be still structurally sound than a new house. It is felt by the construction industry that if older houses could be purchased under N.H.A. terms and home improvement loans used to modernize them or to correct defects, then more people would get into the housing market. Everybody does not buy a new car, but a lot buy a second hand model at a lower price under the same financing arrangements.

Senator BRUNT: There are facilities now for home improvement loans?

Mr. CHUTTER: Yes.

Senator PRATT: What is the average cost of taking over the mortgage financed homes, in the last say four or five years, or what would be the approximate average cost?

Mr. CARON: You mean the average price of the house? Somewhere in the order of $13,250.

Senator PRATT: I was thinking of the average construction cost.

Senator CRERAR: May I ask if there is any change in the demand for style?

Mr. CARON: Yes, Mr. Chairman. It has been most interesting, as a matter of fact. Six years ago the great demand was for two-story houses or the two-storey cottage as they called it. The tremendous volume of American publications on housing caused the style to change to bungalows, first, and then to split levels. They just poured on to the market. This year, however, we see a trend going back to the two-storey house for two reasons: the basic reason is that you can put it on a smaller lot and the land will cost less and there is less lot to look after on the part of the owner. That is a factor that is often forgotten. Secondly, there is a trend towards people wanting their bedrooms on a different level from their living rooms.

Senator PEARSON: I suppose it is better to have the youngsters away from the entertainment that is going on in the evening by having their sleeping quarters upstairs.

Mr. CARON: Yes, that naturally comes about. Even when they are not entertaining they are noisier at night, and the children are more easily wakened.

The CHAIRMAN: What do you find in the cost per square foot relationship as between the ranch house, the bungalow, the split level and the two-storey house?

Mr. CARON: I quoted $10.50 a square foot for a bungalow, and for a two-storey house with maybe a little more volume of house it would run about $10.00 or $9.80, in there somewhere. It is definitely less.

The CHAIRMAN: But not too much?

Mr. CARON: But enough to be worthwhile.

Senator SMITH: Did you say that the two-storey house has more square footage?

Mr. CARON: Slightly.

Senator SMITH: Then does that not make the cost exactly the same—you are getting more square footage and it is costing a little less per square foot?

Mr. CARON: You get more square footage and it is costing a little less per square foot. However, I have just taken $10.50 and $9.80 offhand, but I could work it out mathematically for the same number of square feet.

Mr. CHUTTER: I think, Mr. Chairman, the two-storey house, generally speaking, is more economical than the rambling ranch house because of less wall and less roof.

Senator BOUFFARD: And less foundation.

Mr. CHUTTER: Yes.

Senator MOLSON: Would the heating costs be more economical?

Mr. CARON: Very much so.

Senator MOLSON: And maintenance?

Mr. CARON: Well, no, the things you have more of in the outside surface of a bungalow wear or last much longer, so if there is more of it it is no serious difference in maintenance costs. Generally, a two-storey house has more wood and material that requires more painting and looking after.

Senator MOLSON: What about snow on the roof and so on?

Mr. CARON: I would not think that makes much difference. The snow is going to stay there if the house is properly insulated, and do no particular harm.

Senator SMITH: What is the cost factor in the story and a half house?

Mr. CARON: I can answer your question, Senator Smith, quite accurately from personal experience. In a story and a half house the cost is just as much as in a two-story house because of extra man-hours that go into the roof and the partitions which cause the builder to lose any advantage he may have had.

Mr. Chairman, could I go back to a point that was mentioned by Senator Pearson, who mentioned the possibility of getting N.H.A. mortgages on old houses in town because if a man lived in town he will be closer to his work. It is rather an interesting fact that for a lot of people living in the centre of the urban area their work is away out on the outskirts, and vice versa. We are running into that problem union-wise because in Montreal we have a great deal of trouble in that the unions want their members to be paid for travelling time. Now, the question is where do you start travelling time? Where the streetcar ends? It is a never-ending problem and we have not the answer to it yet. But from that point of view it makes no difference where you are living.

Senator CRERAR: Did you say that they want to be paid for the time taken to travel to their work?

Mr. CARON: Yes, they do.

Senator CRERAR: Have you run across any demand yet where they want to be paid when they are sleeping?

Mr. CARON: It would not surprise me at all if that was in the cards. I am negotiating Chairman of the Montreal Builders Exchange and it has turned

out to be a very interesting job to see what the unions are asking for their members. However, Mr. Chairman, I would like to stop there.

The CHAIRMAN: Has anybody else any questions to ask?

Senator McKEEN: Mr. Chairman, with regard to the installation of utilities built as between the municipality or by the builder, I would like to know how much the buyer of a house would save in the overall cost of the house. If the utilities are installed by the municipality then of course the payments under the N.H.A. would be less, but the cost for installing these utilities has to be paid for by local improvement taxes, so the annual taxes may be higher. Of course, the municipality being able to borrow money at a lower rate than the builder can borrow under the National Housing Act the prospective homeowner would save something due to the difference in the interest rates. How much do that amount to? A buyer may be fooled when he buys a house thinking he is getting it that much cheaper, but when a municipality installs the utilities the owner's taxes are going to go up.

Mr. CARON: I would say the answer to that is where it is financed in the usual manner through local improvement taxes he is going to pay more taxes, no doubt about that, but the problem of the builder is to find the cash to make the greater capital disbursements required to install these facilities.

Senator McKEEN: So the overall cost would be higher if the builder puts in the improvements?

Mr. CARON: I would think so.

The CHAIRMAN: Before we adjourn, I would like on behalf of the committee to extend to you Mr. Caron and to you Mr. Chutter, and more especially to Mr. Caron because he has been under fire to a greater extent than you, Mr. Chutter, our appreciation of your presentation.

The committee adjourned until 10.30 a.m. July 3, 1958.

1958

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE

on the Report of Central Mortgage and Housing
Corporation for the fiscal year ending
December 31, 1957.

No. 4

THURSDAY, JULY 3, 1958

The Honourable C. G. Hawkins, *Chairman*

WITNESSES

Mr. Maurice Joubert, President, National House Builders Association.

Mr. John Caulfield Smith, Executive Vice-President, National House Builders Association.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1958

Extract from the Minutes of the Proceedings of the Senate Wednesday, June 11, 1958.

The Honourable Senator Aseltine moved, seconded by the Honourable Senator Quinn—

That the names of the Honourable Senators Brunt, Emerson and Thorvaldson be added to the list of Senators serving on the Standing Committee on Finance.

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

THE STANDING COMMITTEE ON FINANCE

The Honourable C. G. Hawkins, *Chairman*

The Honourable Senators

Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Burchill
Campbell
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Dupuis
Emerson
Euler
Farris
Fraser
Gershaw
Golding
*Haig
Hawkins
Hayden
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Pratt
Quinn
Reid
Roebuck
Robertson
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
White
Woodrow—44

(Quorum 9)

**ex officio member.*

MINUTES OF PROCEEDINGS

THURSDAY, July 3, 1958.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.30 a.m.

Present: The Honourable Senator Hawkins, *Chairman;* Barbour, Bouffard, Brunt, Burchill, Connolly (*Halifax North*), Connolly (*Ottawa West*), Crerar, Haig, Horner, Isnor, Leonard, Pearson, Pratt, Reid, Robertson, Smith (*Queens-Shelburne*), Stambaugh, Taylor (*Norfolk*), Turgeon and Woodrow—21.

In attendance: The Official Reporters of the Senate.

Consideration of the order of reference of May 20th, 1958, was resumed.

The following representatives of the National House Builders Association were heard and questioned by members of the Committee:—

Mr. Maurice Joubert, President.

Mr. John Caulfield Smith, Executive Vice-President.

(Mr. Smith was also heard on behalf of the Urban Development Institute of Ontario.)

At 12.15 p.m. the Committee adjourned until Thursday next, July 10th instant, at 10.30 a.m.

Attest.

John A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, THURSDAY, July 3, 1958.

EVIDENCE

The Standing Committee on Finance, to which was referred the report of the Central Mortgage and Housing Corporation for the fiscal year ended 31st December, 1957, met this day at 10.30 a.m.

Senator Hawkins in the chair.

The CHAIRMAN: Gentlemen, we have a quorum. Will you come to order, please?

We have with us this morning Mr. Maurice Joubert, President of the National House Builders Association, and Mr. John Caulfield Smith, Executive Vice-President of the National House Builders Association, who intends to present a brief on behalf of the association. Mr. Smith also intends to present a brief on behalf of the Urban Development Institute of Ontario. Mr. W. M. Thompson, President of that organization, had intended to present the brief himself but he cannot be here. I would now call upon Mr. Smith to present the brief of the National House Builders Association.

Mr. JOHN CAULFIELD SMITH: Mr. Chairman and gentlemen, I am the Executive Vice-President of the National House Builders Association and as such I look after the day-to-day routine matters of the organization. However, in view of the fact that our President, Maurice Joubert of Montreal, is here, I believe it might be more fitting that if you have any questions to ask directly bearing upon construction or land development, you direct them to him. Mr. Chairman, is it your pleasure that I read this presentation?

The CHAIRMAN: Yes.

Mr. SMITH: First, honourable senators, a word or two about this organization. The National House Builders Association was incorporated under federal charter in 1943. At the present time it is composed of 34 local builders' organizations having a total membership in the neighbourhood of 2,400 in principal cities from St. John's, Newfoundland, to Victoria, British Columbia. The membership is made up not only of builders, although they constitute the majority, but of subcontractors and suppliers. Reliable figures are hard to obtain but it has been estimated that 75 per cent of our total housing production comes from builders erecting houses for sale. These builders are independent businessmen, risking their own investment capital, with of course certain assistance provided through conventional mortgage channels and N.H.A. mortgage channels. The important thing to remember, I think, is that they are risking their own money, and they do not depend in their operations upon advances from owners upon architect's certification. These people are entrepreneurs in their own right, and while some are general contractors as well as builders, as a group builders should be distinguished from general contractors.

The brief follows:

To the Chairman and Members,
Standing Committee on Finance,
The Senate, Ottawa.
Honourable Senators:

PART I

The National House Builders Association appreciates being given this opportunity to comment on the administration of the National Housing Act by Central Mortgage & Housing Corporation.

In the opinion of our Association, the Corporation has fairly and competently administered the legislation. At all times, the Association has been encouraged by the national, regional and local officers of CMHC in expanding the range and scope of its activities.

Support given by the Corporation to our building research program, annual convention, and various other projects also deserves mention.

Close liaison has been established between our Association's component local associations and local CMHC offices in all centers where such local associations and offices exist. Joint meetings between a builders' committee on one hand and corporation officials on the other, provide a means of settling questions before they become disputes, for pooling ideas and exchanging information.

When an issue arises which cannot be settled locally, it is brought to the attention of CMHC head office by the National Association. Sometimes recourse is had to the appropriate regional office of the Corporation for preliminary discussion, but the NHBA is not organized on a regional basis. Therefore, the greater part of its work has to be done at the local and national levels.

Occasionally, a member of a NHBA component local association may voice a complaint against CMHC, as an individual. In cases where this happens, the member may be unaware of the liaison mechanism existing between his organization and the Corporation, or he may choose to circumvent it.

If the facilities provided are not used, it cannot be said that either CMHC or the National House Builders Association are at fault.

Suggested Recommendation:

As a method of improving administration of NHA, the recommendation is made that even closer liaison be contemplated by Central Mortgage in its dealings with the National Association.

Sharing of advance thinking of the Corporation at its top level would help to pave the way for readier, more intelligent compliance by home builders with CMHC rules, regulations and interpretations. At present, these sometimes come to them as a surprise. Exposure to builders' points of view, ideas and suggestions on specific proposals, could result in the Corporation's administration of the Act being more acceptable and workable.

PART II

Some general observations as regards housing and the house building industry follow, in the belief that they will be of interest.

Finance Source of Worry:

By and large, builders have two main concerns. The first is the recurring shortage of mortgage money. The second is the growing scarcity of serviced land.

With respect to mortgage money, the federal government has accepted a residual position in financing the construction of low cost houses. However, ministers of the crown have stated that this is but a temporary expedient. They say that the government does not wish to be directly involved in mortgage financing on a permanent and substantial basis.

The fact must be faced that Canada suffers from a lack of long term capital. Mortgages must compete with many other types of essential investment. Insofar as the low cost house is concerned, conventional lenders usually rule it out for reasons of size, type and/or location. If low cost houses are to be built year after year, in the numbers required by Canadians, the government will have to devise an adequate financing plan with as much practical application for lenders as for builders.

It is believed that such a plan should offer:

(1) Additional incentive for the lender, perhaps in the form of an increased guarantee.

(2) Supplementary assistance to the house purchaser with respect to his down payment.

(3) If necessary, a special mortgage fund created through the sale of national housing bonds.

Serviced Land Another Problem:

As a problem, lack of serviced land is as important as uncertain mortgage financing. Land that is served by feeder watermains and trunk sewers is not only scarce, it threatens to grow scarcer. Therefore, such serviced land as does exist, and can be made available, is rising in price.

Measures are called for which will ensure that the supply of serviced land will keep pace with demand for it. Even better, a "stock pile" of serviced land might be created.

This proposal does not visualize the installation of water and sewer facilities on every street in areas designated for residential development. Such was the practice prior to 1930 and adherence to it resulted in financial embarrassment to many municipalities. No, what is meant is the provision—in advance of use—of feeder mains and trunk sewers only.

With a steady supply of serviced land, it is logical to expect that competition amongst builders would hold the line on new house prices, and eventually help to reduce them.

This would have its effect on used house prices as well. At present, the value of much of our inventory of older dwellings is inflated. Availability of more serviced land would help to bring about an adjustment.

At the same time, if the purchase of a used house were to be made possible under the N.H.A., on approximately the same terms as those prevailing in the United States, many people who now cannot afford the high down payment required on an older dwelling, could buy one.

What Steps Should Be Taken?

It is at the municipal level that most obstacles to the provision of serviced land are encountered. These obstacles exist for perfectly understandable reasons, but so far no serious effort has been made to come to grips with them. Land servicing is dealt with on a hand-to-mouth basis, with the result that a maze of conflicting, often non-co-operating authorities have been created. Their operations often result in expensive delays that further boost prices.

The federal government has recognized, in the National Housing Act, that under certain circumstances it has a responsibility to help in providing land on which to build housing. Some provincial governments and a few municipalities have undertaken to share this obligation. But the result, in the form of serviced land, is a mere drop in the bucket.

It is realized that the British North America Act places municipalities under provincial jurisdiction. Yet an issue of national importance confronts us. Because of the size and nature of the investment required, surely all three levels of government can co-operate in evolving an adequate financing plan that will produce a reliable and steady supply of serviced land.

As a start, could not the federal government lead in sponsoring legislation with respect to the servicing of land, which would be as constructive in its way as the first Dominion and National Housing Acts were as regards mortgage financing when they were introduced?

Role Played By Research:

With adequate mortgage financing and an assured supply of serviced land, builders would be able to pay more attention to achieving lower building costs through research.

As a group, builders possess a native ingenuity and inventiveness. They are quick to evolve and to adapt new developments in residential design, building materials and techniques that suit the markets they serve.

Evidence of what can be accomplished in this direction is shown by the construction in 1957, in Hespeler, Ontario, of the National House Builders Association budget research house. Gentlemen, you will find on your desk a copy of the National House Builder, on page 6 of which you will find the beginning of this story of the budget research house which spells out in some detail the construction techniques and the cost economies effected.

It was built by George Hipel, a member of our Research Committee; this 3-bedroom frame house cost $7,045—not including charges for water and sewer, legal and financing charges, insurance and land.

It was financed by CMHC under the National Housing Act. The budget research house does not conform in several aspects to the building standards established by the Corporation. But, then, nothing would have been proven if it had! Building to CMHC standards would have cost an additional $400 or so. To build using brick instead of frame, would have cost another $400.

In years to come, our Association wants to initiate and execute a much more ambitious research program. It hopes that its findings can be speedily translated into amendments to the National Building Code, a document whose adoption it advocates as the official building code of every Canadian city and town.

Some progress has been made in this direction, but much remains to be done. One code for the entire country would permit the benefits offered by technological advances in residential building materials, methods and equipment, to reach the housing market with less delay.

Long Range Recommendations:

The issue of housing is a big one. How can we best provide on a long term basis with efficiency and economy, the housing which will be required by future generations? Only a bold approach will serve the purpose. Our Association believes that it will prove effective if directed in two ways:

1. Creation of a more permanent solution to the problem of mortgage financing for the low cost house.
2. Enactment of measures to ensure continuous provision of an adequate supply of serviced land.

Respectfully submitted,

The CHAIRMAN: Mr. Smith and Mr. Joubert, I want to congratulate you on your presentation of a very thought provoking brief, and I am sure that it will stimulate a lot of questioning from the committee. At the moment the committee is open for questions.

Senator REID: Mr. Chairman, may I ask the witness if any progress has been made towards building houses that can be put up by the purchaser, or the owner of the lot on which it is to be erected, a house that can be made up of the parts bought from a construction company? Where I come from in British Columbia a person can buy a house in that way for $6,000 not included in the cost of the lot, and that price includes everything.

Senator HORNER: How many bedrooms would be in that house?

Senator REID: Two bedrooms, with a carport for an automobile. There is one lumber company especially which specializes in that type of house. I am wondering if your association has done anything of that kind in the east?

Mr. SMITH: As an association we have not had too much participation in prefabrication or factory production of units, but many of our members are engaged in just that business, particularly in the western provinces.

Senator REID: It is very popular.

Mr. SMITH: And solves many problems.

Senator REID: One further question: do I take it that you are advocating that the Government go into the mortgage business? On page 4 of your brief you say that the Government does not wish to be directly involved in mortgage financing on a permanent and substantial basis. Are you advocating that the Government do that very thing?

Mr. JOUBERT: We recognize the Government should stay out of regular lending. We recognize this is part of a free enterprise system in Canada, and it is not necessary that the Government engage in permanent mortgage financing; but we suggest under the item of low cost house financing, that if the need arises it may be useful to have a special fund, because currently the regular lenders are afraid to loan on low cost houses.

Senator BOUFFARD: Who would put the money into the fund?

Mr. JOUBERT: It would be by the ordinary means, by subscription to bond issues or something like that. It is a special tool or way of solving a particular problem.

Senator BOUFFARD: If there was a bond issue the Government would have to be responsible for it.

Senator BRUNT: They would have to guarantee it.

Mr. JOUBERT: They would have to give some help in that field.

Senator PRATT: We heard evidence the other day from the Central Mortgage and Housing officials that emphasis was being laid by them on their aim to have low cost housing developed.

Mr. JOUBERT: Yes.

Senator PRATT: I was wondering what more is necessary from the point of view of Government sponsorship for the low cost housing. That comes under the C.M.H.C. plan now, where they have a definite objective to have a bigger proportion of low cost houses financed by their organization.

Mr. JOUBERT: We agree that it is the role of C.M.H.C., and the National Housing Act was set up for that purpose; although, currently loans for houses below $10,000 are difficult to be had in any numbers for the development of low cost housing. That is a very delicate situation, but it is one of the reasons why more low cost houses are not built.

Senator BRUNT: This $350 million that was voted by Parliament for housing is to be used for low cost houses?

Mr. JOUBERT: Yes, it is directed for that purpose.

Senator BRUNT: You do not think that is sufficient?

Mr. JOUBERT: It is residual lending, and we believe that the position of the Government remaining as a residual lender is the correct one.

Senator BRUNT: You do not think there is enough money in the $350 million to look after the low cost housing?

Mr. JOUBERT: We are not discussing the $350 million in our brief, but this would bring us to mention that the $350 million appropriation is a kind of reserve that is set up by the Government, and the reserve currently is for a certain number of housing units, over a certain number of undetermined years. It could be used at different times according to whether the situation was regarded as serious or not.

Senator BRUNT: There are no restrictions on time with respect to the $350 million.

Mr. JOUBERT: There are no restrictions.

Senator BRUNT: So that anyone building a low cost house who has been turned down by two recognized lenders, can go to the fund and get the money.

Mr. JOUBERT: Yes.

Senator BRUNT: Do you not think that the fund will provide enough money for low cost housing?

Mr. JOUBERT: It is difficult to say whether the $350 million is enough or not. This money has just been voted, and I am not an expert on financing to say whether it is enough.

Senator BRUNT: I understood you to say it was difficult to get mortgages on low cost houses. I don't see why it should be difficult, with that sum available.

Senator BARBOUR: Is the $350 million all to be used in low cost housing?

Mr. JOUBERT: There is a distinction to be made there as to how it is to be used. Of course, much of the low cost housing is difficult to characterize. You may find that in some cities a $12,000 house is an average-cost house or even a relatively low-cost one, while in some other places, for some other income groups, a $12,000 house is unobtainable. You should aim at $8,000 or $9,000 or $10,000. The purpose of the research house that was built was to show that a $7,000 house could be built with a probable market price of $8,000 or $9,000 according to the cost of sewers, land and financing.

Senator PRATT: When we talk about a fund to encourage financial assistance for low-cost or higher-cost houses, what about the difference in areas? For instance, take St. John's, Newfoundland. Costs there are very much higher, for various reasons, than they are in some other areas of Canada. If the Government had a set plan of some kind that favoured houses at a certain price level, and so forth, it would work a great disadvantage in some areas. Owing to the fact that there is no precise similarity in costs in various areas, it would be a rather dangerous principle to establish, wouldn't it?

Mr. JOUBERT: Yes; it is a very difficult matter, even with the application of the maximum area per house basis that has been decided upon. The Government, of course, has to have certain rules so that all the financing will not be applied on higher-cost homes. There is a field for discussion here, for you may find with respect to a medium house that sometimes the cost per square foot on an additional 100 or 150 square feet is much less than the cost on the original 1,000 square feet. It is a matter of finding a happy medium in the various areas. It is a very controversial matter.

Senator METHOT: The cost of houses must vary depending on weather conditions in the different sections of the country. For instance, there must be quite a difference in the cost of house building in Newfoundland as compared to that in British Columbia.

Mr. JOUBERT: Yes, there is a difference in the various regions.

Senator METHOT: A large difference.

Mr. JOUBERT: Information on this is being computed by C.M.H.C.

Senator HAIG: You say that $350 million can go quite a ways. Is that your idea?

Mr. JOUBERT: I think the housing figure per year is about $1½ billion. It is a matter of finding out for how long this $350 million would apply. Does it apply to a one-year period?

Senator HAIG: Let me help your memory a little, if I may. When the present Government came into power about a year ago it voted $250 million to be spent on housing, but by January it was all gone.

Mr. JOUBERT: Yes.

Senator HAIG: The demand for housing is as keen now as ever, and the Government has voted another $350 million. That may last until September or October and then what will happen?

Mr. JOUBERT: It is not my place to discuss the intention of the Government, but the Government is a residual lender to help out in difficult situations. The housing industry has an annual production of $1½ billion, so that if the Government were to concurrently supply the money, then of course $350 million would not be sufficient. But we have to take into account the regular lending that is made by established mortgage institutions.

Senator HAIG: But they do not want to lend.

Senator BRUNT: Oh yes they do.

Senator HAIG: How many loans have the life insurance companies made in the last six months?

Mr. JOUBERT: It is very difficult for me to answer that.

Senator HAIG: What percentage of their lending money has been used for housing?

Mr. JOUBERT: We have had declarations from the Mortgage Lenders' Association to the effect that their current budget for investment is about the same as last year, and they have shown the percentages as being beween 60 and 80 per cent of their portfolio according to the various types of companies they represent. Some are insurance companies, others are trust companies, etc., and according to the type of investment, their proportion varies. But they have declared definitely they will lend their usual proportion.

Senator METHOT: How much money have they loaned? You have told us they already have $1 billion, so $350 million is one-third of that. The Government is helping actually to the extent of one-third.

Mr. JOUBERT: We should not consider the $350 million, as was pointed out to us, as being on an annual basis, a six-months basis or a two-year basis; it is money to be put on the shelf for emergency periods. I cannot state that it will be a certain proportion. I would like to be told by the Government for what period it will apply. It would only be then that I could answer you with any accuracy as to whether it is sufficient or not. Now we do not know.

Senator HAIG: You have not ansered my question yet. You deal in housing and I want to know from you if the life insurance companies are lending as much proportionately now as they did five years ago in the housing business?

Mr. JOUBERT: From the indications I have I would say they are not lending less, but they are a little afraid about lending on lower-cost housing where low income groups are concerned.

Senator HAIG: Would you say that the Sun Life Assurance Company of Canada, the London Life Insurance Company and the Great-West Life Assurance Company, which are three big companies, are lending as much on housing today as they did five years ago?

Senator BRUNT: More.

Senator LEONARD: Mr. Chairman, we will have a witness from the Dominion Mortgage Investment Company, who can give us accurate information on that.

Mr. JOUBERT: Frankly I do not feel competent to discuss their budget. They can answer that question better than I can.

Senator SMITH *(Queens-Shelburne)*: Before we leave the subject of low-cost housing, the inference I draw from reading the middle paragraph on page 3 of your brief with regard to "sharing of advance thinking" is that you are not asked to share in the advanced thinking on any of the work that is going on in the Central Mortgage and Housing Corporation. In view of the statement by Dr. Bates that C.M.H.C. is now preparing plans and specifications for what they will call a low-cost type house, I was wondering whether or not your organization has been consulted with respect to the preparation of those particular plans and specifications?

Mr. JOUBERT: There is plenty of co-operation. Our own research committee, which supervised and built the house that is displayed in this magazine, has been working in co-operation with C.M.H.C. offlcals, and any new house that will be built by the same committee will be discussed thoroughly with C.M.H.C. officials. Of course, they may plan similar houses and we do not pretend that we have the right to supervise their work. We are not asking for that. They have a perfect right to prepare and work on other plans. We do say, however, that if closer co-operation existed with respect to some phases of discussion, we think we could be helpful in giving the point of view of the builder.

Senator SMITH *(Queens-Shelburne)*: You do not know, then, whether or not at the present time your organization has been called into consultation in the preparation of the plans and specifications for the low-cost type of house to which I have referred?

Mr. JOUBERT: Yes, in so far as we are aware there is current consultation with our research committee on it.

Senator SMITH *(Queens-Shelburne)*: Yes, I would hope there would be. I have another question. It was stated that there would be 140,000 starts in house building this year. Do you think the market for new houses today is such that it could absorb that number of starts?

Mr. JOUBERT: Up till now the sales reports are very good, and it seems that the market will absorb the production.

The CHAIRMAN: Senator Crerar?

Senator CRERAR: Well, Mr. Chairman, some of us think the Government are getting too far into this business and going too wide afield. Your brief gives me the impression that you want the Government to extend its incursions into business. Have you any comment to make on that?

Mr. JOUBERT: Yes, I have a comment to make on that, because we would not like you to conclude that we are encouraging the Government to go completely into regular business channels. We are suggesting that for very urgent situations like the building of a low-cost house for the low-wage earner, the first help the Government may give is to create, or help to create the appropriate channels. We are not asking for direct assistance in any way.

Senator CRERAR: As a general principle, do you think it desirable for governments to extend their activities?

Mr. JOUBERT: The Government has apparently been organizing channels in every field, agriculture, and many other industries, and I think the Government may through its boards and research activities help organize channels. When I mention organizing channels I specifically mean helping in say having

as more fluid market for any type of house, and helping create the market also means consultation with different regular bodies like lenders and builders.

Senator CRERAR: Of course, your association is naturally interested in building houses?

Mr. JOUBERT: Yes.

Senator CRERAR: That is the way you make your living, is it not?

Mr. JOUBERT: Yes.

Senator CRERAR: May I suggest that your viewpoint may not be altogether unprejudiced?

Mr. JOUBERT: Of course it is prejudiced in favour of the building of houses, but we have a very strong point on this matter: we think we cannot recommend to the individual to build his own house, any more than we would recommend to any man to build his own "Ford", because we cannot achieve mass production that way, and there would be false economy. We have seen it happen very often that when the labourer builds his own house, if he is skilful he will succeed, but sometimes at the expense of his own health, and sometimes he could have made more money in his own field than building his own house. That is a very strong point we make.

Senator CRERAR: In the concluding paragraph of your brief, you say:

> "The issue of housing is a big one. How can we best provide on a long term basis with efficiency and economy, the housing which will be required by future generations?"

Is it your responsibility to build houses now for future generations?

Mr. JOUBERT: Well, we think that this is a field where much thinking has to be done in advance. The provision of land is a very difficult problem, and a builder must plan for many years ahead in his operation. Maybe we are extending it a little by saying "future generations" in the plural!

Senator CRERAR: Your proposals would mean, by this substantial expansion, the use of Government money? Who would provide the money for servicing, for instance, of sewers and water mains, and all that sort of things?

Mr. JOUBERT: Well, this matter of servicing is a matter of stock piling.

Senator CRERAR: Who would do the stock piling?

Mr. JOUBERT: The stock piling may be done by the municipality, provided it had appropriate financing plans which would help shelve such services. Most of the speculation that has been done is on serviced land. We all know Canada is large enough to hold any development, but when we talk of shortage it is not on raw land, but on serviced land.

Senator CRERAR: Let us proceed with that for a moment. That would mean that the assistance would have to be given by cash loans to a municipality, or by guaranteed bond issue?

Mr. JOUBERT: Most probably by guaranteed bond loans.

Senator CRERAR: Have you any other method you would suggest?

Mr. JOUBERT: No, because any municipality in its administrative affairs is by definition short of money. It has to pass a by-law to get the money, and when the municipality reports to the Municipal Affairs Commission, or to brokers, on its financial position, it has to show it is worth so much, and it may borrow so much to a very definite use. That is what we call hand-to-mouth financing for regular developments; but we find areas that could be provided with mains, and deflate land prices in that way. We think that the Municipal Affairs Commission in the different provinces, and brokers, would not readily agree with the municipality in investing a little more than is required for the annual needs, and that is where we recommend that a special plan could be worked on with the three levels of government, so that the municipalities could

go ahead and plan for a few years more on development of service areas. We have specifically mentioned that we are not suggesting to spend money on the side streets, pavements, curbs, and so on, and so forth, we are just suggesting that with the main in one area we can deflate prices to quite an extent.

Senator CRERAR: Do you think it would be possible that your procedures, if adopted, would lead to the building of too many houses?

Mr. JOUBERT: I do not think so, because the economy is a matter of supply and demand, and adjustments are made readily by the producers of the houses. It is just that a litle part of the capital eventually needed in one area would be supplied a few years in advance, and that would help quite a lot in deflating prices on serviced land.

Senator CRERAR: If that should happen, then somewhere the burden would come on the taxpayer, would it not?

Mr. JOUBERT: In some ways, yes, and it has to be a very carefully planned move. That is why we are not going into the details of it, but suggest that it requires study from the three levels of government.

Senator PEARSON: Under your scheme or idea that the land should be serviced, your stock piling idea, who would be the owner of that land, and who would hold that land until the builder decided that was the time to develop it?

Mr. JOUBERT: Well, we are dealing with individuals, and we do not see that it is necessary that it be held by the Government just for that purpose, but I see that you may think that this will make an extra profit to some owners, while it will not show an extra profit to others. But we find out that currently wealthy land owners make extra profit by not having services or by not co-operating and having services, and that would play against their economy of speculation, because the current speculator prefers in some areas not to have any services and to hold land for a longer period.

Senator PRATT: If there is going to be a servicing of privately owned lands in suburbs, surely that servicing if it were publicly financed, unless it were expropriated by the municipality, would have to be controlled as to price, would it not, if the Government wanted to build?

The CHAIRMAN: Would there not have to be taxing?

Mr. JOUBERT: There would be a direct tax against that region, against that area. I think the support is more needed in the evaluation of the municipal guarantees; I think the need is an additional guarantee, and additional co-operation and comprehension on the part of the different bodies who judge the proposed expenditure.

Senator BRUNT: Would you recommend that the land owner be forced to accept these services? A farmer, for instance, owning let us say a 300-acre farm on the edge of town wants to stockpile that for the future. Are you advocating that he has to take sewers and water mains for that land and probably pay taxes on them for 10 years?

Mr. JOUBERT: That is one of the aspects that has to be studied. We do not want to suggest that all farm lands around the cities or towns must be compelled to take services. Any extensions that would be made would be made in accordance with a master plan, and these master plans provide green belt areas and areas that are to be developed from year to year. Therefore, if we are to make use of master plans, services will have to be provided in those areas designated by that plan for development in the next few years, and in order to do this there must be some manner of forcing acceptance to some extent. But that aspect has to be limited and carefully studied. We cannot think of having master plans in existence for the purpose of controlling development in future years and yet not have any instruments to aid in the development of that plan.

Senator WALL: I wonder, Mr. Chairman, if I could come back to this problem of low cost housing. The brief mentions, on page 4 that the Government will have to devise an adequate financing plan with as much practical application for lenders as for builders. I wonder whether Mr. Joubert would comment more specifically on what I think are interesting generalizations. For example, the brief says:

> **It is believed that such a plan should offer:**
> **(1) Additional incentive for the lender, perhaps in the form of an increased guarantee.**

Suppose we specify that a little bit.

Mr. JOUBERT: We realize the lender is in a difficult position but it is not our role to speak in his name. We realize that the managers of lending departments in any of the mortgage companies have to be careful with the money put in their hands and it is normal for them to place the money where it is best guaranteed and where it brings in the best revenue for the clients of the company. If the lenders are reluctant to lend on smaller houses then there has to be some means of helping them out and guaranteeing in some way that the money will not be lost.

Senator WALL: Right.

Mr. JOUBERT: We find that experience in the United States and Canada in regard to loans to low wage earners in appropriate communities indicates that the losses on such loans are not very big.

The CHAIRMAN: This may not be helping you, Mr. Joubert, but already there are guarantees provided by the Government for housing loans.

Senator WALL: Yes. What additional guarantees are you in favour of?

Mr. JOUBERT: We mention that in our brief because we realize that the lender has his own apprehensions, and some plan has to be devised to help erase those apprehensions. It is not our role to say what mechanism should be made use of or to say how he may be relieved of such apprehensions.

Senator WALL: But there have been no suggestions or wishes expressed by lenders on which you are making these generalizations?

Mr. JOUBERT: No.

Senator WALL: What about point No. 2?

> **It is believed that such a plan should offer:**
> **(2) Supplementary assistance to the house purchaser with respect to his down payment.**

Mr. JOUBERT: That might relate to the second mortgage market. The second mortgage for some people is a very bad thing and yet we know that the second mortgage market exists. Usually second mortgages are sold at very large discounts and there really should be a fluid market in all aspects of the mortgage market. The second mortgage market is not established, it is not public, and many second mortgages are sold privately at large discounts, and this causes quite a loss sometimes to builders and sometimes to the home owner.

Senator METHOT: If second mortgages were guaranteed then the second mortgage would become a first mortgage.

Senator WALL: What would be the purpose of a guaranteed second mortgage? Would you not attain the same purpose by accepting a lower down payment?

Senator BRUNT: May I point out Mr. Chairman, that in Ontario at one time the Government was in the second mortgage business. They bought thousands of second mortgages and it worked out very well.

Senator LEONARD: As far as the National Housing Act is concerned there are not supposed to be any second mortgages. Are you discussing conventional mortgages now?

Mr. JOUBERT: I am discussing the help to be provided to low wage earners, and if any additional laws have to be enacted to help them, it may be necessary. But of course we are not providing you with the solution, we are mentioning only where the trouble lies.

Senator PEARSON: Would it be a cheaper proposition for the low wage earner to purchase a multiple type house rather than a single?

Mr. JOUBERT: That is a very large question, Senator Pearson.

The CHAIRMAN: Senator Wall, have you more questions?

Senator WALL: In that particular arena I am through. I think we have covered the other angle, that is the provision of serviced land.

Mr. JOUBERT: If you will allow me, Senator Wall, when you talk about assistance to purchasers of low cost homes, there is another aspect we did not touch upon here and it should be mentioned: It is the fact that some economists think that it is a better idea to build higher cost houses for those in the higher income brackets, for those who can afford them, and provide a means for the low wage earner to buy the used house vacated by the purchaser of a higher priced house. There is a complete thesis that can be built up around this idea. If the market for used houses was as fluid as it is for used cars maybe the low wage earner could purchase these used houses. At least that would be one way of his reaching home ownership without the builder having to reduce the price of a home by cutting off so many square feet of area and doing away with some of the finished items in a house.

Senator PRATT: On page 6 your brief refers to terms prevailing in the United States with reference to the purchase of used houses. Could you enlarge on that?

Mr. JOUBERT: We have not developed the item very fully but it relates to that.

Senator PRATT: Is it Government policy there to assist in the purchase of these older dwellings?

Mr. SMITH: Mr. Chairman, I wonder if I might answer that question. In the United States, under the Federal Housing Act, it is possible to buy an older, used house for approximately the same down payment as it takes to buy a new one here. In Canada, under existing legislation, that generous treatment is not provided.

Senator HORNER: Who takes care of the balance of the purchase price on such a deal in the United States?

Mr. SMITH: It is financed by a mortgage from the Federal Housing Administration.

Senator HORNER: Do they take over the old house and then sell it?

Mr. SMITH: No, it is just a financing device; it does not provide a substitute for the real estate broker in any way.

Senator WALL: Actually if we were to make it possible for the easier selling or financing of older homes it would be a tremendous boon to us in Canada would it not? Let us say that an average low income person is able to buy an old house for 10 per cent down, financing the balance of it, it would make a terrific difference to him.

The CHAIRMAN: Is not the purpose of the National Housing Act and the C.M.H.C. to find more housing? When you start to finance old housing you are not finding new houses.

Senator HORNER: When the Canadian Construction Association representatives were presenting their brief to us they claimed that they could see an end to this provision of more housing. They said that in fact they had come to the point where there were no sales for all the new houses. That was their

idea. It was not that there was not sufficient money but their fear was that they would not be able to sell all the houses they could build. You do not agree with that, I see. You believe that we are going to go on year after year building the same number of houses each year.

Mr. JOUBERT: I think that the statistics given in the Gordon Royal Commission Report show quite clearly that we need more and more housing.

Senator HORNER: But I do not see that the insurance company, the lending companies are willing to lend on these high cost housing units. The greater number of people, I am sorry to say, are people in the low income brackets, so it stands to reason that there is a greater possibility of loans being repaid in the case of low cost housing, a greater possibility of the money that was borrowed being returned.

Mr. JOUBERT: We have to be very careful when we talk of higher cost housing. It does not mean that the lenders want to lend on $25,000 housing; they are lending on $12,000 houses very currently and we think this is very sound practice.

That is why I mention this aspect of the financing of the better demand houses, because it may be that with the $12,000 to $18,000 houses we may add the appropriate numbers of housing units needed in Canada; then, gradually there would be a shift for the low-wage earner, as soon as his income power increases, to go from the lower cost house to the higher cost house; the lowest cost house may happen to be the old house or a small house that a builder has built new. It is a matter of having him come up to a better house when his income improves.

Senator PEARSON: I should like you to discuss further the question of the multiple family type of house as against the single unit.

Mr. JOUBERT: It is very wide in scope and entails various principles, starting with ownership and rentals. It may be more difficult to establish home ownership with the low-wage earner if you build only multiple units; although, it could be studied to find out about the co-operative ownership plan that may help low wage earners to own co-operatively their share of an apartment house.

On the other hand, apartment houses may be built more economically with fewer dollars per apartment unit. Also, you have the cost of land, which is increasing rapidly when you get into multiple unit buildings, and you find that the number of dollars allotted to providing land for one housing unit is sometimes higher in the apartment house type than on the individual house type. It may be found from statistics in larger cities that apartment houses are built economically and absorb a certain part of the excess cost of land.

Senator PEARSON: I was referring to the multiple type of house rather than the apartment type: that is, individual units which are joined together so as to save the addition of one wall.

Mr. JOUBERT: You mean a row of houses?

Senator PEARSON: Yes, a row of houses.

Mr. JOUBERT: Row housing may be a good solution. Of course, there has been very poor row housing built in years gone by. But you can have better designs which would provide more family units per acre and better investment per acre.

You see, when you look at the low cost housing, the type which is built by our research committee, you have to figure on $8,000 to $9,000 per unit with five to six units per acre, which may mean an investment of $40,000 to $60,000 per acre; while with the apartment house at the other end of the bracket, you would have $200,000 to $300,000 per acre. But in the middle you could have row type housing built at about $120,000 to $150,000 per acre,

guaranteeing fully municipal services, using land more economically, and the units would be built a little more economically because the units would be built in a series.

Senator ROBERTSON: I am curious to know about the reluctance on the part of institutions to lend money on the low-cost houses of the $8,000 to $9,000 type.

Mr. JOUBERT: I think it is mostly a matter of choice of the management of the loan company; and they surely have better guarantees when they loan on a higher type of house. That is why it is done, and we are not criticizing them—they may be perfectly right. That is why it may be better to advocate building the larger type of house, to serve a definite market and to serve the lower-wage earner with used houses, and smaller houses that some builders may succeed in building.

Senator ROBERTSON: But as you say, the experience in the United States and Canada has been, and as Senator Horner says, that there is less loss in default on a $8,000 to $9,000 than on a $10,000 to $15,000. Why then is there such a reluctance, if the experience on the lower-cost house is good? The market for re-sale of the lower cost house is much larger than on the bigger house.

Mr. JOUBERT: I think the reluctance does not lie only with the lenders on the matter of financing; I think it lies even with the citizens within the community. Many people think we are down-grading the whole area if we build thousands of smaller houses. We have to realize that the community cannot be built with large numbers of smaller houses, and other communities with fewer more expensive houses. There is the problem of integration of the different types of houses within one plan.

I think the lender, together with the builder, who knows the market and the people themselves, has a feeling that there is an unbalance to be attained if all the lower-cost houses were built of the individual low cost type within the community. There is a very definite social and economic problem in community planning.

Senator ROBERTSON: But specific assistance from Government or other sources to aid the financing would not change the social aspect.

Mr. JOUBERT: No. That is why we need research in the line of what has been mentioned in row houses and this type of adaption of lower-cost units. Sometimes it is found that the low-cost units will be better integrated in the community if it is planned with the appropriate semi-public parks along the rows, and other things, which you cannot provide with the individual house.

Senator LEONARD: Just to follow that up, is it not a fact that the number of low cost houses built in the past few years has been due to a number of reasons, such as the standards that have been set up and the desire of buyers to buy a better class of house?

Mr. JOUBERT: Yes. It is more a market situation than a matter of standards.

Senator LEONARD: More a market, than standards or financing, is that not so?

Mr. JOUBERT: Yes. It is for the same reason that, for instance, in Detroit the automobile builders make the bigger car rather than the Volkswagen type of car.

Senator LEONARD: It is only now that you are putting more emphasis on the low-cost house such as the George Hipel house, or the house the witnesses on behalf of the Central Mortgage and Housing Corporation explained to us here, at a cost of even less than the George Hipel house.

Mr. JOUBERT: Yes.

Senator LEONARD: So far we have not had very much practice in the use of mortgage financing on those two types of houses.

Mr. JOUBERT: That is a fact, yes. I might also point out that our association is not necessarily putting more emphasis on lower-cost housing. We are working on it to try to provide it, but we also think that our members can do a good job in other brackets and in other fields, and as the market happens to be there, this is free enterprise and they follow the market.

Senator LEONARD: To follow that thought along, am I not correct in saying with respect to this estimate of 140,000 completions in 1958, with the houses that are already completed and those already started, they are being adequately financed; in other words, there is not at the present time an anticipated shortage of mortgage funds to finance the 140,000 completions this year, is that correct?

Mr. JOUBERT: I might answer that most of our members have adequate money but there is a spotty situation in some cities where lenders, feeling that sales are lagging a little more than in other areas, would refrain from lending. This problem has confronted some of our members.

Senator LEONARD: That is not because of the supply in the mortgage situation but because of the market situation itself.

Mr. JOUBERT: That is what the lenders say. Of course, the builders say that the houses would sell. It is a local problem.

The CHAIRMAN: There is also a brief here prepared by the Urban Development Institute of Ontario, and I understand that Mr. Smith is prepared to present it. Mr. William M. Thompson, President of the Urban Development Institute, has written to me as follows:

"I sincerely regret that owing to prior commitments I will be unable to accept your kind invitation on that day.

However, I am taking the liberty of making a submission through Mr. J. C. Smith of National House Builders Association, and I hope that if there is an opportunity at a later date to appear in person, I shall be granted the privilege of an invitation." I would point that the brief presented by the National House Builders Association seems to be related to this one prepared by the Urban Development Institute of Ontario, and I would suggest that the latter be read into the record now and that the members of the committee be free to ask questions in relation to both briefs.

Mr. SMITH: Mr. Chairman and gentlemen of the committee, at the present time the Urban Development Institute is an Ontario organization. We have contacts and connections in several other provinces, notably Saskatchewan, Quebec, Alberta and Manitoba. We feel it will not be too long before this body is a national organization too.

The Urban Development Institute was formed in 1956, and it is closely related to the National House Builders Association, its membership consisting of the majority of land developers in Ontario. If I may share an intimate thought with you, we hope eventually to have a series of institutes representing all the parties that have a role to play in the housing picure. For instance, we expect in the not too distant future to have a Building Products Manufacturers Institute. The Urban Development Institute is the one that came first.

The brief reads:

This Institute notes that the intention of the National Housing Act is to enable families of modest incomes to own their own homes, and that the present government has taken steps to provide mortgage funds, if necessary by direct lending, for the financing of low-cost homes.

Serviced land is also an important factor to be considered in relation to low-cost housing. Land prices doubled during the period 1951-56, whereas the construction cost per square foot rose by only one-fifth.

One explanation of this trend is that more and more municipalities are adandoning their traditional practice of financing by means of local improvements. They claim that the high cost of providing feeder watermains and trunk sewers is a burden they cannot afford to undertake. Therefore—and with provincial sanction—the tendency is for them to place the responsibility for servicing land on private subdividers and developers. These entrepreneurs have, in turn, no alternative but to transfer the costs incurred to the purchasers of building lots, hence to the purchasers of the houses erected on them.

In that statement I think you will find the explanation as to why land prices doubled during the period 1951-56.. Again it is the operation of the law of supply and demand.

The brief continues: The result is that achievement of a substantial program of low-cost housing, on anything but a temporary basis is jeopardized by the increasing shortage in rising cost of serviced land.

By way of illustration may I say that if in certain areas you have to pay $5,000 or $6,000 for a lot on which a working man has to put a house, you can see how a program of low-cost housing is defeated.

To remedy this situation, our Institute advocates that the Senate Finance Committee urge the federal Government to amend the Naional Housing Act to provide for the financing of feeder watermains and trunk sewers by municipalities and/or private developers and subdividers, and further, that the federal Government evolve a modus operanti with the provincial governments to ensure their co-operation in encouraging a reliable supply of serviced land for low-cost housing.

I would point out that the organization seeks Government assistance to create a climate favourable for private investment. We do not want to see the Government supplant private enterprise, but we want it if possible to keep its role of creating a favourable situation for house building.

The CHAIRMAN: Now, with the presentation of the second brief I would invite the members of the committee to ask questions with respect to both briefs.

Senator BURCHILL: I come from New Brunswick and I want to say that I am fully in accord with the last two recommendations outlined in the brief just read. It has to do with a very acute problem we face and I think if these recommendations were carried into effect it would have desirable results.

Senator SMITH *(Queens-Shelburne)*: How much cheaper would it be for the eventual home owner if the watermain and trunk sewers were financed through some method adopted by the federal Government than through the present system of financing? Somebody has to pay the principal and interest, so what is the difference?

Mr. SMITH: Mr. Chairman, because private developers are charged with practically the sole responsibility of servicing this land, and because colossal amounts of capital are required for this purpose, they have to charge more for their land than they would if the suggested aid were forthcoming.

Mr. JOUBERT: I would like to give an example of what can happen when the developer has to pay these costs. I have heard Mr. Thompson on this matter and it seems that in some cities in Ontario the developer is responsible for putting in part or all of a trunk sewer in order to sell his lots, and sometimes the trunk sewer may eventually serve other areas than that which he owns. He has to cover this charge in the selling cost of his own lots. So that is one way in which the cost of lots is increased by an undue proportion.

The CHAIRMAN: I have one thing I would like to say about that. I had an experience with respect to installing watermains in a municipality in Nova Scotia. They forced me to put water through their municipality, but they made no allowance to me, in spite of the fact that they are now connecting water outlets to it.

Senator BRUNT: They are tapping it now without any reimbursement to you at all.

The CHAIRMAN: The public utilities said that I cannot recover for that water line until all the latter lines have recovered from it, which might mean a thousand years before I can get anything out of it. That is a very pertinent question and a very pertinent point that Mr. Joubert brought up.

Senator SMITH *(Queens-Shelburne)*: Then the main point is not the interest that is received, it is the fact that all the tax burden for providing the water and sewer services is going to be borne by that municipality?

Mr. JOUBERT: And after all, a municipality has been organized to take care of social needs, and if it abandons its responsibilities, then it means somebody else will have to provide those needs some time, and then the cost is not so well balanced as when shared according to the local improvement by-laws.

Senator SMITH (*Queens-Shelburne*): Have you any examples where the builder is also obliged to put up schools? I know in some cities of the United States that is true.

Mr. JOUBERT: Some spending on school construction has been forced into house builders programmes.

Senator HAIG: Everyone is saying this should be done, but how will it all be done? Where the municipality of so and so is annexed to another municipality, the water comes through the second municipality into the first municipality, the first one is not interested, and how are you going to get them to do it? It is too far out of the centre of the city, anyway, and people cannot get in and get out. How are they going to get the money back? If the individual cannot get his money back, how can the Government get it back? Our municipal law is framed that the municipality can do all those things, that all improvements of that kind are made by the municipality, and the law is framed with that idea in view, the legislation is all that way. The only way it could be done is for the dominion to guarantee to lend to the province, and the province to the municipality, and the municipality would be liable for the money it has borrowed; and you will have a lot of trouble to get that through.

Senator SMITH (*Queens-Shelburne*): Is not the point this, that where the house builder is going to build one hundred or five hundred houses, and is obliged to add to the cost those services, it would mean the entire sharing of the cost of providing those services? In other words, there are cities, and I know of more than one, in which the municipality will not accept the ordinary responsibility, as Senator Haig referred to.

Mr. JOUBERT: It is a fact that on regular front services, in front of houses built, as you mentioned, there may not be a very great difference between the cost of builder-provided services and local-improvement-provided services, and this section—

Senator HAIG: Before you finish, let me say this. There is going to be a conference of the dominion Government and the municipalities. Why cannot this be one of the subjects to be discussed at this conference, as to how we are going to meet that?

Senator BRUNT: There is no reason why not.

The CHAIRMAN: We are discussing that here now; that problem is before us now, of course, and I think that the conference you are speaking about could well profit by having the record of this discussion here.

Senator LEONARD: The land assembly division of the N.H.A. does provide for the local services. Is it your idea that that type of programme could be extended to new sewers?

Mr. SMITH: If the land assembly division of the N.H.A. could be extended to provide for private developments, with proper safeguards, that could suffice in many instances. There are groupings of investment capital to take care of major problems of that type.

Senator LEONARD: Have you any other practical suggestions of what should be done?

Mr. SMITH: We did have hopes of the servicing of land by the lending institutions. There were a few projects of that type, but with the demand for mortgage money, and investment money, it has gone by the boards.

The CHAIRMAN: Any other questions, gentlemen?

Senator PRATT: In speaking about urban development, it is assumed that the word "urban" is outside of municipalities, generally speaking, is it?

Mr. JOUBERT: I think I should point out that the urban developer referred to is the man buying land, and doing everything necessary before a house is built. He is quite different from a speculator, who buys land to hold for a long time without providing any services.

Senator PRATT: There are cases, and I know some, where municipalities do not want to extend their responsibilities and their expenses out of the boundaries that already exist, but very favourable building sections are on the outside, of which I could mention two or three. Now, is this intended to take care of that which could be done through private corporations who want to develop, and which would not come under municipalities?

Mr. JOUBERT: Well, the intention is that as much as can be done by the regular local improvement system should be done. Development corporations are ready to put up services provided there would be provision, as was mentioned, for a better financed plan and better re-appropriation of the cost to the ultimate user of the house. In cases where a trunk sewer is built for five hundred houses, which could serve a thousand houses, it is hoped that a way may be found to distribute the cost properly.

Senator ISNOR: Mr. Chairman, may I draw the attention of the witnesses to page 6 of the brief, in regard to older dwellings. I have in mind the thought expressed by Senator Wall on this point. I wonder what effect all this would have on the so-called blighted districts in cities in which a master plan of the city has been prepared?

Mr. JOUBERT: Quite frankly, I do not think it would affect any redevelopment plan, because the blighted area is characteristically an area where houses are too old and could not be financed in any proposed used house plan, as suggested.

Senator ISNOR: There is a difference of opinion with regard to that. In the older cities I have in mind there are many houses thirty, forty, or fifty years old, which are still salable, and you would say they should be financed through the N.H.A. on the same basis as the new houses? Is that what you say?

Mr. JOUBERT: Yes.

Senator ISNOR: As I recall, the object in 1938 was to create the building of new houses for citizens, and to add, of course, to the employment situation as far as building operations were concerned, and to stimulate the building trade. I think that is more or less of a contradiction to the object of the N.H.A.

Mr. JOUBERT: We agree that the principal object of the National Housing Act is to build new homes and we think it will remain so but we find that the market as it develops has specific characteristics that have to be worked on if we want to have a perfectly fluid market for housing. And I say that for the housing market in general, not only the new-house market. You cannot confine yourself only to the new-house market without thinking of the housing market as a whole.

Senator WALL: I wonder if I could come back to one thought. We had made attempts to guess at the reason why there were not enough low-cost houses built and one of the reasons was a supposed reluctance, which is not proven, on the part of lenders, for example; another is the rise in the price of serviced land; another was probably the building code regulations. Would it be unfair to say that there is also a definite perhaps a traditional reluctance or hesitancy on the part of the builders themselves for reasons which I would not want to specify at the present time?

Mr. JOUBERT: You may specify it, Senator Wall, and I think what you have in mind is the profit aspect, that the profit is too high. Well, I am ready to discuss it very frankly. The builder is an entrepreneur like any other manufacturer in Canada and he is entitled to his fair profit, and what we are working towards is to try and have a good market for homes for future clients of the house builders, and we think that excessive profits when made are not more normal in the hands of house builders than in the hands of any other manufacturer. If you consider the house builder as a manufacturer you will see that he has to be very keen and very active to be sure that he will make an average profit from year to year. Many go bankrupt. House building is a most complex industry. In the assembly of television sets or automobiles the manufacturing processes are much more integrated within a plant than house building will ever be, and that is brought about by the fact that you assemble or build or manufacture a house out in the open while most other products are built in factories. That is most important to consider when discussing the risks and profits of the house builder. Of course, you may find that some house builders at one time or another have profited or speculated on a few houses if there was a lack of housing in one area, but in general you will find that prices are generally at a fair level when there is enough of everything. Our contention is that what is lacking most in the housing industry is a fluid market for houses in general, and a good market for serviced land.

Senator WALL: Could I discuss one additional point on that question, and that is one dealing wiih multiple housing on a co-operative basis. Taking into consideration the average cost of land and the average cost of building a single dwelling and compare that to the cost of a multiple dwelling, not of the posh type, but a good standard multiple brick dwelling adequate for the purposes of family living, what would be the approximate cost of such a unit vis-a-vis a row type housing or a single dwelling?

Mr. JOUBERT: Figures have been published by Mr. Legget, Director of Housing Research of the National Research Council, and I am ready to accept his published figures, for discussion purposes. He sets at $1.25 per cubic foot the cost of a single dwelling unit and at $1.05 for the apartment house, but in his own statement he states that one should not take only the cost per cubic foot or the capital investment figure to compare costs of housing units. One should figure rather what the monthly payment may be for the type of housing unit. If you want to make comparisons you have to take into account not only the money taken out of the pocket of the wage earner but you have to take into account what he is getting for the money he is paying out monthly and this involves quite a discussion on what percentage of his earnings he should spend per month on housing, and also it means quite a lot of discussion on

what we think is the need of the family in the way of a perfectly fitting environment for normal development of the family. If you consider apartment house construction you will find that the cubic foot cost is much lower but you are supplying to the family a much smaller cubicle in which to live, and most of the time no outside life, no life in the parks, no communal facilities, while on the other hand, in the single type dwelling, you give access to land around the individual house. When you compare the monthly instalments with the rentals, you will find that most of the time they compare favourably in favour of the individual house.

Senator WALL: In other words the question I was raising is the possibility of a choice. For instance, here is a low income person who may buy a house at $10,000 away out some place, or he could buy for a comparable price a suite in a co-operative development. I do not think that that multiple co-operative idea has ever been developed in Canada to the extent that it should.

Mr. JOUBERT: That is a fact. It could be worked on to see what could be provided for the low wage earner in that regard, but we would have to understand that the co-operative movement would involve co-operative ownership in, necessarily, co-operative buildings. There are co-operatives engaged in co-operative building, which is an entirely different undertaking. This co-operative proposition should be studied thoroughly because it may be the answer to many problems.

Senator WALL: Let me put it on a personal basis: it is conceivable for you to build a 25-unit apartment building, as entrepreneur, and then sell suites to people?

Mr. JOUBERT: Yes it could be done. It is done in luxury apartment houses, where individual suites are sold, and I do not know why it could not be done for low cost suites. On the other hand, you mentioned distances, and in that regard one must be careful, because when you speak of apartment houses you generally speak of buildings close to the centre of cities but that does not mean necessarily that a person living there would be living close to the place of his work. Sometimes the low wage earner has his place of employment quite distant from the centre of the city, and would probably have to travel as far as if he lived on the fringe.

Senator METHOT: Is it not a fact that in our part of the country municipalities are reluctant to provide services in the way of watermains and sewers to lands because they know that there are facilities which serve lands close to the city. Take for example Cap-de-la-Madeleine. There we have large properties where housing can be built but instead of builders building on these close in properties which are serviced they prefer to develop land which is five, six and even ten miles outside the city, on land which is very far distant from the industries. My question is that don't you think that if we were to urge the Government to provide financing to build such water and sewer services to these outlying properties that we are going to increase our difficulties rather than diminish them.

Mr. JOUBERT: I mentioned, that such developments should be governed by carefully studied development plans.

Senator METHOT: Do you not think it is time a decision was made on this? Take Cap de la Madeleine, for example, where they are going out three, five or six miles from the city when there are properties to be built on right at the door of the factories, but they are speculating on the land.

Mr. JOUBERT: I do not exactly know the situation at Cap de la Madeleine.

Senator METHOT: At Three Rivers and at Quebec City it is the same thing. Do you not think that in providing more serviced lands you are increasing the problem rather than decreasing it.

Mr. JOUBERT: Not in the way we propose, which is with respect only to the areas where serviced land is scarce; if it is not scarce we are not recommending it for that particular purpose.

Senator METHOT: Take Montreal, for example—Montreal Island was in 1912 divided to accommodate a population of over 4 million, and it is still divided; but that arrangement has been cancelled, and the land has gone back to farm use. Actually, that is what we are doing today; we are developing in outlying areas when serviced land is not being developed. The municipality comes along and says that it will not provide services to the outlying area at a certain standard for nothing—first develop the closer areas, and the services will be supplied.

Mr. JOUBERT: You are right, and the municipal bodies have the full power not to develop when they judge the land is too far out, and when there is other land in a nearby area. That is their responsibility.

Senator METHOT: You are asking the Government to supply services to the outlying area?

Mr. JOUBERT: We are not going that far. We are not asking the Government to supply more land, but we are suggesting that the same municipal body which has the power to refuse to develop, has the means to develop when the houses are needed. There is a distinction there.

Senator HORNER: Why do they go to outlying areas when nearby land is available?

Senator METHOT: They speculate on the land.

Senator PEARSON: And another thing, the builder wants a block of land so that he can build 200 or 500 houses, but in the cities there are only scattered lots available; they are of little use from a builder's point of view.

Mr. JOUBERT: But some builders who build 15 or 25 houses a year can do it rather efficiently and compete with the others; I think as long as scattered lots are available they will build on them. But the way things are now it seems some speculators are holding land for a purpose.

Senator METHOT: To return to the city of Montreal, for example, there are still large portions of the Island not developed; but, they are building in Terrebonne, St. Jerome, St. Hubert and so on.

Mr. JOUBERT: You are thinking of St. Leonard-de-Port-Maurice, which is typical of an area in the centre of the Island, which, to be developed, would require a lot of trunk sewers to serve the area.

The CHAIRMAN: I think perhaps the discussion with respect to Montreal has perhaps gone far enough, and is a bit beyond our terms of reference.

Senator METHOT: I don't know whether it happens in other cities, but I know that many municipalities are reluctant to provide services because they are asked to extend them to far away areas, when there is land near by not being developed. Such situations are apparent in Montreal and Three Rivers.

Senator PEARSON: The same thing happend in Winnipeg, where they developed areas for miles outside, and they are not being used today.

Mr. JOUBERT: We are not recommending that.

Senator SMITH (*Queens-Shelburne*): I understand that the George Hipel house was financed by Central Mortgage and Housing Corporation. Does that mean that if a builder wants to build 500 of those houses, C.M.H.C. will approve them?

Mr. JOUBERT: That house was built on a very special financing basis so that Mr. Hipel could demonstrate his point, that he could build such a low-cost house with standards which he set up and decided to follow. C.M.H.C. did

that with a co-operative mind to help prove a point. But last year it was not the regular policy to finance that type of house. This year I hear that some such houses have been financed. Probably research will find new ways by which more and more of those houses can be financed.

Senator SMITH (*Queens-Shelburne*): In what ways does this house not conform to the building standards?

Mr. JOUBERT: On typical standards, like thickness of plywood, spacing of joists; and by these economies it was possible to save $400 on that house.

Senator LEONARD: Is it true that the loan was made under section 40, by an institution?

Mr. JOUBERT: The regular builders' loan.

Senator LEONARD: But it was by an institution and insured under the Act.

Mr. JOUBERT: Yes.

Senator SMITH (*Queens-Shelburne*): I notice that this is the type of house that an owner with an income of $2700 a year could handle.

Mr. JOUBERT: Yes.

Senator SMITH (*Queens-Shelburne*): That is a very interesting point.

Senator LEONARD: I think the record should be corrected: I understand the Hipel house was financed by direct loan under section 40.

Mr. JOUBERT: I was told it was not.

The CHAIRMAN: Mr. Joynes is here; perhaps he can straighten that matter out.

Mr. JOYNES: The Hipel house built at Preston was on a direct loan; the same type of house is being financed by the Bank of Montreal at Dartmouth, Nova Scotia.

Senator SMITH (*Queens-Shelburne*): Would Mr. Joubert care to tell us whether or not he anticipates any shortage of mortgage funds in view of the rather large financing that will be done during this fiscal year by the federal Government, to the amount of $350 million? Do you think that is going to tighten up the mortgage funds available for housing?

Mr. JOUBERT: I am not competent to answer that question. We have been told by the Mortgage Financing Association that we are not to expect any tightening on mortgages, that they would follow the regular porfolio procedure.

The CHAIRMAN: Any further questions, gentlemen? If not, I will entertain a motion for adjournment. Before that takes place, may I take this opportunity of expressing my appreciation and that of the committee to you, Mr. Joubert and Mr. Smith, for giving us of your time and providing us with much frank and helpful information.

Whereupon the committee adjourned to July 10, 1958.

1958

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE

on the Report of Central Mortgage and Housing
Corporation for the fiscal year ending
December 31, 1957.

No. 5

THURSDAY, JULY 10, 1958

The Honourable C. G. Hawkins, *Chairman*

WITNESSES

Mr. Eric Beecroft, National Director, Community Planning Association of Canada.

Mr. Stewart Bates, President, Central Mortgage and Housing Corporation.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1958

Extract from the Minutes of the Proceedings of the Senate, Wednesday, June 11, 1958.

The Honourable Senator Aseltine moved, seconded by the Honourable Senator Quinn—

That the names of the Honourable Senators Brunt, Emerson and Thorvaldson be added to the list of Senators serving on the Standing Committee on Finance.

The question being put on the motion, it was—
Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

THE STANDING COMMITTEE ON FINANCE

The Honourable C. G. Hawkins, *Chairman*

The Honourable Senators

Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Burchill
Campbell
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Dupuis
Emerson
Euler
Farris
Fraser
Gershaw
Golding
*Haig
Hawkins
Hayden
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Pratt
Quinn
Reid
Roebuck
Robertson
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
White
Woodrow—44

(Quorum 9)

**ex officio member.*

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate

TUESDAY, May 20, 1958.

With leave of the Senate,

The Honourable Senator Aseltine moved, seconded by the Honourable Senator Pearson—

That the Report of Central Mortgage and Housing Corporation for the fiscal year ended the 31st of December, 1957, be referred to the Standing Committee on Finance for consideration and report.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, July 10th, 1958.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.30 a.m.

Present: The Honourable Senators: Hawkins (*Chairman*); Barbour, Burchill, Connolly (*Ottawa West*), Crerar, Dupuis, Euler, Haig, Horner, Lambert, Macdonald (*Brantford*), Pearson, Pratt, Reid, Robertson, Smith (*Queens-Shelburne*), Stambaugh, Turgeon, White and Woodrow—20.

In attendance: The official Reporters of the Senate.

Consideration of the order of reference of May 20th, 1958, was resumed.

The following were heard and questioned by members of the Committee:—
Mr. Eric Beecroft, National Director, Community Planning Association of Canada.

Mr. Stewart Bates, President, Central Mortgage and Housing Corporation.

At 12.35 p.m. the Committee adjourned until Thursday next, July 17th instant, at 10.30 a.m.

Attest.

John A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, Thursday, July 10, 1958.

EVIDENCE

The Standing Committee on Finance, to which was referred the report of the Central Mortgage and Housing Corporation for the fiscal year ended 31st December, 1957, met this day at 10:30 a.m.

Senator Hawkins in the chair.

The CHAIRMAN: Gentlemen, we have a quorum. Will you come to order, please?

We have before us this morning, Mr. Eric Beecroft, National Director of the Community Planning Association of Canada, and also Mr. Stewart Bates, President of Central Mortgage and Housing Corporation. There are also present senior officers of the Planning and Advisory of Central Mortgage and Housing Corporation. We shall hear from Mr. Beecroft first about the opportunity of getting housing for lower income groups. I will ask the committee to desist from asking questions until he is through with his presentation, and then questions may be asked.

Mr. BEECROFT: Mr. Chairman and senators. The Community Planning Association of Canada is a non-profit association, established in 1946 under Letters Patent issued by the Federal Government, representing a very considerable variety of people throughout Canada interested in the problems of controlling urban growth in economic and useful ways; and our support comes from this wide membership of about 3,000 individual members; about 200 of the municipalities of Canada who pay sustaining fees to the association in order to exchange information about problems relating to urban development and planning. From nearly all the provinces we get some financial support, and from the Federal Government under Part V of National Housing Act.

The Committee has already heard considerable statistical evidence on housing conditions. This brief, therefore, might well begin with the following basic assumptions which seem to be generally accepted:

(1) there is a severe housing shortage, affecting mainly, as such a shortage always does, the lower-income sections of the population;

(2) a great deal of the existing housing stock must be replaced;

(3) to provide adequate housing, we must produce annually a net addition to the housing stock at a faster rate than in past years, if we are going to close the gap between need and supply.

It is not surprising, therefore, that we are concentrating now more and more upon this prolonged and unremedied shortage of housing for people of low income.

Ever since World War II, many people have cherished the hope that new housing would be built fast enough—though it has been mainly for the upper income levels—so that more and better housing would gradually become available to those in the lower income range. This was the "filtering-down" theory.

This theory depends for its validity upon a steady closing of the gap between need and supply. Faith in this theory has been shaken by the fact that, after nearly thirteen years of post-war building, the gap is not closing. Indeed, in the last year or so, we have realized that it might widen. Suddenly therefore, there is a widespread demand from political leaders and from the construction industry and from many housing experts, to make a direct attack on the problem of housing for lower income people.

Most of us probably share this intention; but in attacking the problem of low-cost housing, we must recognize that the basic problem is still what it has been all along: to add to the net quantity of our housing stock, but at an increasing rate. Instead of suddenly training our sights exclusively on new lower cost housing we have to keep a balanced view and attack the problem of housing on all fronts. The lessons we can draw from our failure to remedy the shortage seem to be:

> That we obviously cannot afford to put a blind faith in the "filtering-down" theory; in fact, there are good reasons for suspecting that "filtering-down" is impeded in many ways and that, in any case, in a democratic society, this is a difficult theory to defend politically, especially when, over a period of years it has not worked;
>
> in view of our failure to close the gap between need and supply, we must take deliberate steps and concerted action on several fronts.

A National Housing Policy:

What is needed, perhaps, is a comprehensive national housing policy—a national charter of housing, it might be called—to be aimed at bringing all levels of government, the private investors, the land developers and the house builders into concerted action toward the following positive objectives:

> (1) to *assure* an annual net addition to the housing stock—not just the maximum addition which can be reached by leaving all parties to take such initiative as they please, but an addition *sufficient to close the gap within a reasonable number of years;*
>
> (2) to provide housing directly for medium and low income people in the many situations where it will undoubtedly be required—for example, to fill the need for housing of workers in the many new industrial or mining areas, and in some cases, to relocate people displaced by urban redevelopment and by over-spill from rapidly-growing areas and to fill the needs, neglected in our post-war program, arising from the healthy mobility of our population;
>
> (3) to make certain that a helpful "filtering-down" process, instead of being left to operate automatically, will be *facilitated* by positive and reliable means: for example,
>
> (a) by making loans available with whatever government help or guarantees may be needed, for the purchase of existing housing;
>
> (b) by encouraging strong measures to enforce maintenance standards for existing housing—thus compelling proper conservation measures as well as the prompt rehabilitation of salvageable dwellings;
>
> (c) by continuing, and by every means possible urging the utilization of legislation providing for, the financing of home improvements and the conservation of housing where appropriate for multiple use.

Improvement of Existing Housing

The Value of the Housing Survey and the Master Plan:

We have long neglected this promising means to improve living conditions in an economical manner. May I suggest several reasons for this neglect?

Many landlords are known to be sluggish in observing maintenance standards and unenthusiastic about rehabilitation or sound methods of conservation. Under conditions of shortage, many of them receive steady income on their deteriorating properties. But this difficulty does not result entirely from the greed of landlords as a class. There is a natural reluctance of any property owner to pay for either maintenance or improvements when he does not know what the future holds for his property. Most of our cities have had no housing survey and have produced no master plan for housing renewal or rehabilitation. With the constant, even increasing, threat of sudden ad hoc redevelopment plans, a central city property owner has little reason to take a long term view of property maintenance. But show him an overall official city plan calling for the retention of his salvageable property, and take determined measures of enforcement, and he may see some virtue in improvement or conversion or rehabilitation, as well as in the measures of maintenance which are required to assure income in the long run.

Secondly, the lack of public support for measures to improve or conserve existing housing, is in part, a result of the popular pre-occupation with the shiny new house. Thanks to magazines, newspapers and other advertising media, social status is identified with a new suburban house and a new automobile. It is here that we find one of the weaknesses of the "filtering-down" theory: it is completely inconsistent with the almost sanctified belief that when people are all ready to begin home-making they should start in a new suburban house. If we are to make adequate use of existing housing, we must overcome this artificially-induced indifference to it, see that the social stigma is removed from it, and enlist positive public support for a constructive program.

Rental Housing:

A social stigma has also been attached to rental housing. This stigma has helped to create an indifference to the building of medium and low rental housing at the very period in our national development when the mobility of our population has been high. The lack of both private and public investment in this field has been one of the reasons why we have not closed the gap between need and supply. If we want to expand housing construction to take care of the real needs of the large population of non-family and unmarried people whose mobility is essential but who require decent accommodation and sound neighbourhoods we must do everything we can to erase the impression that the tenant of multiple-unit rental housing is a kind of second class citizen without "a stake in his country".

Some of the difficulty about rental housing arises from the fact that we associate it historically with the slum tenements of the great cities. We assume quite unnecessarily that the apartment or row-house dweller must be deprived of green space and open air. In this country we have seen few examples of civilised living in well-designed multiple dwellings. But encouraging examples exist; and if we are so provincial that we do not seek out the best modern experience in foreign architecture and neighbourhood planning we may hurt only ourselves. We can seek ideas abroad without being mere copyists. Fortunately some of our architects, planners and civic leaders are now beginning to create designs under Canadian conditions which may demonstrate that multiple housing is not inconsistent with either economy or beauty.

It is probably safe to predict that, of all the housing we have produced in the post-war years, it may not be the rental housing which will become slums of the future, but rather the monstrous subdivisions of box-like single single-family homes built on grids, without benefit of either architect or town planner.

Solution through Planning and Design:

The great importance of neighbourhood design as a means of getting economical low-cost housing was emphasized at the recent conference held by the Canadian Construction Association in Ottawa. That conference placed emphasis on the need for good design of groups of buildings—for both small single-family houses and multiple units. The C.C.A. and its associates are to be congratulated for putting forward a suggestion that every possible step should be taken to give community planners and architects an opportunity to put their talents to work on neighbourhood layout for low-cost housing. Apparently they feel that the secret of making civilized, marketable and durable neighbourhoods of small homes depends to a very great degree, not on the architecture of the house or the block alone, but on the architecture of the entire neighbourhood of buildings and space.

To give full scope to the architects, planners and landscape architects, we must not only see that they are drawn into the planning of all low-cost neighbourhoods, but that the municipalities, where necessary, should free them from the rigid zoning requirements which now hamper good design or even make it impossible. Traditional geometric street-patterns and traditional rules regarding such matters as set-backs and side-yards are quite incompatible with good design, particularly in the arrangement of small houses, row houses, or apartment blocks. There will have to be a pretty general scrapping of these negative concepts of zoning. Town planning and good architectural design will provide positive solutions.

So wherever small houses or row houses or low-rental apartment blocks are to be constructed, economy and good design are primary objective. The project must therefore be sufficiently large to make possible not only the economies of construction but the economies of street and service layout and the aesthetic advantages of good design. It may be regrettable, but we might as well admit that there is no way to attain satisfactory economies or aesthetic standards in low-cost housing except in sizeable projects.

The "Basic" or "Stripped-down" House:

A comment should be made here upon the much-discussed recent efforts to design an inexpensive "stripped-down" or "basic" house. If we are striving for economy, should we not make sure first of all that we have done everything we can to economize through sound methods of land subdivision and the planning of local services, streets and other external features? We often forget that a great deal of the cost of a home lies in the land and services. We should look carefully at these costs before we squeeze out all the internal amenities of the house and reduce room space to the absolute minimum. We shall come to grief if we design a "basic" house and then plan units of it on the land as we plant a cornfield. Structurally it may last fifty years, but the neighbourhood may become obsolescent as a result of the failure of planning and design.

There is another urgent reason for looking askance at a "basic" house. If we mean what we say about our economic future— if we expect, as we well might, to increase substantially our productivity and our real per capita income, we must be consistent and supply homes which will not be substandard and unmarketable when our increased living standard is achieved!

There may be some areas where a "basic" house, good for low income occupants for twenty to thirty years, is appropriate—perhaps in some remote small areas where the real need is to get something better than the woeful shacks now in use, or in some single-enterprise communities where, because of the nature of the resources or some other circumstance, a permanent and stable settlement is not assured. But surely in most of our rapidly growing

urban centres today, the only truly economical house is a resonably good house, built and financed in a manner appropriate to the requirements of a progressively improving economy.

What is Needed is More Housing—in many Forms:

A National Program of Housing, as already suggested, would call for action on many fronts. Too much of our policy discussion seems to centre on this or that solution:—will it be rental or home ownership? public or private enterprise? row housing, high-rise or three-storey walkups? What matters basically is to get much more decent housing produced—in all of these categories —and to apply to all of it, particularly in the medium and low cost ranges, that careful neighbourhood design which has been seriously neglected in the past and which is the best insurance against present waste and future blight.

Why is More Use not Made of N.H.A. for Rental Housing?

We hear it said that the N.H.A. provides all the means necessary to get federal aid for both public and private rental projects. Why have these means not been used more extensively?

It is only recently that the limited dividend section of the Act has been used extensively for rental housing sponsored by private enterprise. This is an encouraging development.

What of the public housing provisions of the Act? This section 36 of the Act depends for its use upon the initiative of the municipalities. The municipalities, though increasingly concerned about the welfare aspects of the housing problem, have hitherto been reluctant to apply for the federal-provincial assistance for public housing. In part, no doubt, this reluctance reflects a failure to understand financial benefits which a municipality can gain from re-housing its citizens under improved conditions. This particular difficulty will no doubt be overcome as the benefits to residents and taxpayers alike from such projects as Regent Park in Toronto and the *Habitations Jeanne-Mance* in Montreal come to be understood.

Local governments have so far been in a difficult position to combat the typical propaganda used against subsidized public housing based upon the argument "why should I pay out of my taxes for John Smith's rent; I have always paid my own rent", or upon such stories as the one about tenants of public housing keeping coal in the bath tubs. In the United States, where these misunderstandings about the nature and purpose of public housing prevailed as they have here for a long time, a great deal of progress has been made through education to demonstrate the actual dollars and cents benefits to taxpayers as well as the social benefits to the residents of the projects.

One way in which the education may proceed is through the use in our municipalities of housing surveys to reveal housing conditions; by preparation of comprehensive housing programs looking toward action on each front as may be needed—new public housing, redevelopment of blighted areas, rehabilitation, conservation and maintenance enforcement.

Municipalities are restrained in other ways from taking the initiative in housing matters. In many metropolitan areas they are competing with one another for industry and they prefer to "zone out" housing—especially low-value housing. This cut-throat-competition for a favourable assessment ratio is ruinous to sound urban development. We cannot have industry without housing and schools, and we cannot have housing and schools without industry. It is because of this impasse, among other things, that we are moving rapidly toward metropolitan government with a common assessment roll. As these wider jurisdictions are established—and they are certain to be soon—a common

attack can be made on the housing situation in a whole urban area and it will be possible to devise an overall positive program, looking to the senior levels for assistance on planned projects.

Senior Citizens' Housing

Would it not be desirable to study carefully the possibility of integrating old peoples' housing with many of the large rental projects (both public and private) which we expect to see in the future?

There is a great backlog of need in this field, and it will be a tragedy for the nation if, in building homes for senior citizens, we continue to zone them out of a natural relationship with other age groups. It is surely not beyond our ingenuity to plan lay-outs and methods of financing for mixed residential development.

One of the problems in housing the elderly is to make some provision for periods of hospitalization and nursing care or supervision. Simple provisions for hospitalization in such projects might take a considerable load off the public hospitals. Is it not possible that the federal and provincial governments could make outright grants for these non-self-liquidating features of housing for the elderly, leaving the strictly housing features to be handled as at present under the N.H.A.? May I emphasize that this would be direct aid to the elderly and might reduce the need for further increases in the basic pension. It is not sufficiently clear to the public in this country that, *under conditions of housing shortage,* increases in cash pensions may be absorbed to a large extent in increases in rents in existing, inadequate housing.

Possibly the federal government could also consider greater assistance to non-profit societies building the limited dividend type of accommodation. There is an extraordinary discrepancy between the federal assistance available for senior citizens' housing under Section 36 (public housing) and when built under Section 16 (non-profit housing). Under Section 36, the Federal government can contribute 75% of both the capital cost and the operating losses, while under Section 16 it merely makes loans available at or near cost. Could there not be a federal matching of provincial grants up to a given percentage of the capital cost? This might encourage those provinces which are not already doing so to give assistance to this type of housing and would take some of the weight off the charitable organizations. Up to the present most of the burden has fallen on the charitable organizations because the federal government has only been prepared to accept a limited proportion of old people in public housing projects.

Another big problem in old people's housing is to reduce the cost for single persons. N.H.A. financing is now only available for self-contained units. For the many single pensioners, shared plumbing facilities and the reduction in floor areas may be quite satisfactory and would bring rents within the means of the single old person without heavy subsidies.

Financing of Trunk Sewers, Sewage Disposal and Water Mains: Since the cost of serviced land is one of the main obstacles to the construction of low-cost housing, a basic remedy could be provided from the federal level through financial assistance to municipalities in connection with the "big pipe" projects for water and sewage.

I know that this has already been proposed to your committee, and I want to endorse it heartily on behalf of the Community Planning Association of Canada.

This would no doubt require an amendment to the National Housing Act. (Under the land assembly provisions of the N.H.A., federal financing can be made available only for local services.)

The precise methods of assistance should be carefully studied. Loans at favourable interest rates to the municipalities for approved projects might provide the relief needed to get many essential projects started and thus to accelerate construction of housing.

If one of the results of federal financing would be to encourage more careful long-term planning of such basic and expensive projects as sewers, sewage disposal and water supply, surely no harm could be done. The planning of industrial siting and highway routing, as well as residential development, are all related to the lay-out of the "big pipes". Anything that will speed planning for the big pipes where they are needed may set off a chain reaction that could bring about the much-needed regional planning of all such basic urban facilities—to the vast benefit of many kinds of private construction and private investment as well as the municipalities themselves.

Thank you, Mr. Chairman.

The CHAIRMAN: Thank you very much, Mr. Beecroft. Now, gentlemen, there will be an opportunity to question Mr. Beecroft.

Senator REID: How would you get around the difficulty of financial assistance for the development of sewers and water mains on new properties by the federal authorities or the provincial authorities, as outlined on page 8 of your brief? Speaking from experience in municipal affairs, I would say that would raise quite a problem and stir agitation in the minds of most of us who are paying the whole shot for water and sewers. I am just speaking of it as a practical problem. I know what we are up against.

Mr. BEECROFT: Mr. Chairman, my answer to that would be that if the job has to be done in future, even if it makes some of us jealous because we did not have this kind of a system out of national revenues at an earlier stage, it still has to be done; we have got to turn over a new leaf some time and do this the way that is most effective.

Senator REID: I have another question, referring to page 4, where it says:

> "It is probably safe to predict that, of all the housing we have produced in the post-war years, it may not be the rental housing which will become slums of the future, but rather the monstrous subdivisions of box-like single-family homes built on grids, without benefit of either architect or town planner."

Now, I draw your attention to the fact that I think there were about twelve housing "outfits", if I may use that term during wartime years, which built single-family homes, and it was said that they would all be slums. They have most beautiful home sites around the city of Vancouver today, each having a beautiful garden, and all built in one group as wartime houses. It is not the houses that are built which bring about slums, it is the people themselves.

Senator BURCHILL: Coming back to page 8 of the brief, may I ask this question: Is it not so that Ontario through its water Resources Board provides capital assistance on water and sewerage costs based on 30-year amortization plans?

Mr. BEECROFT: Mr. Chairman, I am not in a position to answer that, I am sorry. I do not know the Ontario legislation.

The CHAIRMAN: Perhaps we can get the answer to that interesting question from Mr. Hodgson.

Mr. HODGSON: The Ontario Water Resources Board does make financing available. This organization was created in 1956, and is just getting underway. I understand today its total commitments have been relatively small, and have been for the most part confined to the small municipality short of funds with severely limited borrowing powers, which otherwise could not install services

at all. I understand that the Ontario Water Resources Board has not to date made financial assistance available to the larger communities to increase their assistance for trunk services.

Senator SMITH (*Queens-Shelburne*): I should like to comment on the contribution that might be made to the problem of providing housing by more assistance to the co-operative housing method. I have in mind the great success of the Nova Scotia Housing Commission, for example. It strikes me that in that part of Canada this technique might be furthered, and I would like to have your comments on that.

Mr. BEECROFT: I am sorry to say, Mr. Chairman, I do not have much knowledge of the way in which the federal legislation can be used to assist co-operatives. There is much that can be done, and it has been done, and there is a good deal of initiative in this matter taken in the Maritime provinces and in Quebec. I should like to urge very strongly that in any complete inquiry into the problem of low-cost housing, your committee, if I might so suggest, Mr. Chairman, might like to ask for testimony from some of the people connected with the co-operatives in Quebec and in Nova Scotia, and the Co-operative Union of Canada, who have assembled a considerable amount of information on this subject.

Senator WOODROW: I am wondering if you have put forward any efforts in the way of co-operation with the municipalities to get them to improve their planning and services?

Mr. BEECROFT: Yes, we have done that. Our association is trying all the time to persuade municipalities to think in terms of planning rather in terms of zoning, or in terms of zoning only to the extent of implementing a master plan, and to bring it down specifically to the question of low-cost housing. I think that most of us feel that the only way to get low cost housing carried out economically and efficiently, with saving to tenants and Governments alike, is to get it done on a sufficiently large scale possibly making more use of land assembly provisions of the National Housing Act wherever possible, and if necessary by that means to assemble sufficiently large tracts, or suitable tracts of land, keeping in mind the municipality's master plan, and then having the municipality and the federal authorities and the builders co-operate in getting planning and architectural skill put to work on planning the layout in that large area.

Senator WOODROW: Do you approach the municipalities directly and point out these advantages?

Mr. BEECROFT: A lot of the members of this association are closely connected with the municipalities and we exchange information on these subjects through this means.

Senator WHITE: Mr. Beecroft, on page 5 of your brief you use the following description, "The basic or stripped-down house". When you refer to low-cost housing will you tell me what type of house you have in mind, what it will cost having in mind the type of surroundings as mentioned in your brief.

Mr. BEECROFT: I have been influenced by some of the testimony I have read in evidence that you have already received, Senator White. I am not, however, a builder, nor an architect, and I do not feel competent to say what is a basic house. I think that is something that should be very carefully studied, not in relation only to present needs but, as the brief points out, in relation to what are going to be the needs of the population over a period of 30, 40 or 50 years.

There is a danger that the basic house of today, as I have heard it described, with small rooms, and thinking of it only by itself on a lot, without planning its proper relationship with the rest of the housing in the area, or the proper

use of the land space between houses, there is great danger we will be simply creating new slums that will quickly became uninhabitable. I think the builders are afraid, and justifiably so, of that, and the lenders also may be afraid of it.

Senator WHITE: That type of housing you are suggesting or recommending, the type you want to have, how are you going to get that house for what you may call low cost?

Mr. BEECROFT: It may be very much better to make the savings that are necessary by exploring all the possibilities of low cost multiple units in our housing developments. Although our brief does not take time to say it, row-housing may have an advantage of giving a tenant an opportunity to become an owner, to acquire an equity in the course of time. I think that we have not explored sufficiently in this country the possibilities of good multiple-unit housing. From experience in other countries and some of our own experience, it appears that our architects and town planners and builders are quite capable of producing a fine type of rental housing for people who need accommodation at low rentals.

Senator WHITE: Do you want to put a price on your figure of low rental housing or low cost housing? What income bracket would a buyer have to be in to be able to pay for low rental housing? What is the income bracket you have in mind?

Mr. BEECROFT: Roughly from $2,500 to $4,000 a year.

Senator WHITE: How much would a house have to be sold for to be purchased by a person in that income bracket?

Mr. BEECROFT: In talking about the $8,000 house, or the so-called Hipel house, the income bracket a person would have to be in to purchase that type of house is approximately $2,700 to $2,800, and that is according to the calculations which have been associated with the Hipel house.

Senator WHITE: Do you mean that if you have an income of $2,700 a year you can live in an $8,000 house—is that what you mean?

Mr. BEECROFT: That is my understanding from discussions I have heard of the Hipel house. I am accepting the statement of the National Association of Housebuilders on that.

Senator EULER: Do you mean such a person could afford an $8,000 house on a rental basis or on the basis of purchasing it?

Mr. BEECROFT: Buying it.

Senator EULER: On a $2,700 income per year?

Senator WHITE: How many years would it take to pay for a $8,000 house on an annual income of $2,700?

Mr. BEECROFT: Twenty-five years.

Senator PRATT: Evidence given at a previous meeting of the committee mentioned that something like 22 per cent of a person's income, within certain brackets, would be appropriated to the amortization and the carrying charges of a house in the low cost bracket.

Mr. BEECROFT: I think the standard usually lies somewhere between 22 per cent and 27 per cent.

Senator PRATT: 27 per cent?

Mr. BEECROFT: I think 27 per cent is about the maximum that would be acceptable.

Senator PRATT: That would be a very high percentage of a person's income?

Mr. BEECROFT: Yes it would, Senator Pratt.

Senator **Pratt**: Is that practical? Has experience proven that to be a practical figure with that range of income?

Mr. **Beecroft**: I think that is proved in practice to be very suitable over the years in the operation of the N.H.A. Act and in the view of the lenders.

Senator **Wall**: On page 2 of your brief you write what may appear to be the crux of the contention of the brief and that is the national housing policy—a national charter of housing. Now, you claim that this should bring in all levels of Government, and then you go on to say: "(1) to assure an annual net addition to the housing stock . . . sufficient to close the gap within a reasonable number of years."

Now the basic premise is that we are not closing that gap. Are we closing it at some levels of housing, better type housing for example and not at some other level? That may be so. Now, we are closing it at the high cost housing level because there have been too many of those houses not being sold, as you know—Winnipeg is quite an interesting example of that—what incentives do you see, how could we assure that we have a comprehensive addition of housing at all levels every year? If we have to assure that who is going to do this assuring? It is a truism—we accept that we should assure it. Now, who?

Mr. **Beecroft**: This is a point which I think should be spelled out in any adequate brief. What steps are to be taken, how do we get people together each year? I think that one of the practices which is lacking in this country for the purpose of getting a sound housing program is an appropriate relationship between the federal, provincial and local Governments in respect to this type of problem. We still think we are bound—not so much by the law of the British North America Act but by a sort of convention that has grown up surrounding our system of Government, that each level of Government has to sort of keep at a diplomatic arms' length from the other. We must not be caught interfering in each others' business. The federal Government has to be very careful, for instance, not to seem to suggest to a municipality what it ought to be doing.

I don't know how to remedy this, except by getting people to realize that from now on in respect to housing, as well as in respect of many other types of public works, we are inevitably in partnership between the three levels of Government. One way I would suggest for implementation of this housing charter is to have a national council made up of representatives of the three levels of Government—perhaps together with representatives of private lending institutions and the building industry—whose responsibility it would be to see that every few months a very careful check is made to determine the progress being made towards closing the gap and meeting the target for the year. Then, if the target were not being met, by this means you could flash to the municipalities and the provincial Governments the intelligence which is necessary and which would indicate whether they have to get a move on and make better use of the provisions of the Housing Act.

Under present circumstances, without some kind of formal or informal liason—something more than just a random get-together now and then—and without some institution that has a definite responsibility for making a periodic check on the closing of the gap, we are not going to persuade the municipalities or other people who could be taking the initiative that they ought to do so.

I do not think we can blame the municipalities too much because, after all, they are the low man on the totem pole. When it comes to matters of approaching financial markets, they are hesitant; and, even if you are asking them to take only a small share of the capital cost, you are expecting rather much to think that they are going to take the initiative in all these situations.

I think we have to have machinery that will break down this reticence that exists between the three levels of Government in approaching the housing question. We are evading at present the responsibility for closing the gap.

Senator WALL: Let us accept that. Specifically, that initiative cannot be taken at the municipal levels; it might be taken at the provincial level, but finally we end up at the national level. C.N.H.C. is an independent Government corporation—is it to take this initiative? It could not do it; it has a specific function. It must, therefore, be a department of the Government or some branch of Government who will take the initiative of setting up this machinery.

Mr. BEECROFT: I think if this problem were injected into the discussion that is going to take place, according to announcements, between the Federal Government and the representatives of the municipalities, we could expect some sympathetic interest in the idea from both levels, without having the federal Government take an undue amount of initiative in it.

The CHAIRMAN: Senator Robertson?

Senator ROBERTSON: Mr. Chairman, I think the question I had in mind has been largely answered in response to Senator Wall's question. I note that the witness in his testimony used from time to time the expression municipal government and federal Government, and seemed to ignore the provincial governments. I had a question on that point: I could not understand why the provincial governments were not brought into this more than the witness seemed to be bringing them in. After all, I would think that the responsibility of the federal Government in this field would be by way of assistance to the provinces to assist the municipalities. If you are going to by-pass the provinces, you are going to be in trouble, or I miss my guess.

Mr. BEECROFT: Mr. Chairman, I welcome the question from Senator Robertson. It makes me wish I could have made the brief even longer than it is. It omits to say that one of the important parts of the program of the Community Planning Association of Canada is to try to persuade the provincial governments to take the leadership in these matters which really relate to urban planning in the broad sense; and since the municipalities are the particular responsibility of the provinces, as the Senator suggests, the responsibility for taking the initiative, for example in getting good housing surveys conducted, helping the municipality to set up administrative devices necessary to do good planning, get sound regional or metropolitan Government, these have to be done on the initiative of the province. One of the suggestions we are making, and I think we will be heard to make if often in the future, is that every province of Canada simply must have a high-level planning system attached to the premier of the province.

Senator WALL: For example, Mr. Beecroft, if I may pinpoint that: I noted on page 2 you used these words, "to provide housing directly for medium and low income people in the many situations where it will undoubtedly be required". Underneath that I wrote "provinces?". It appeared to me that it is imperative that the provincial governments should show greater leadership, because they are in the first place in closer contact with the municipalities. Would you concur in that general thesis?

Senator CRERAR: The witness a short time ago used the phrase "sound housing policy". How would you define such a policy?

Mr. BEECROFT: Well, the general definition of it here is that it is going to be a policy that will definitely close the gap between need and supply within a reasonable number of years, and will proceed to meet certain annual targets for the class of citizens who require housing.

Senator CRERAR: Is there a possibility that we may get too many houses?

Mr. BEECROFT: There may be a real possibility of getting too many houses in certain places or in certain economic categories.

Senator EULER: You may more than close the gap in some places, while still leaving a wide gap in other places.

Senator CRERAR: Supposing you close the gap in a city like Montreal, and conditions change, as they always do, and Montreal finds itself with a surplus of houses which it can't rent or sell, who bears the financial responsibility? In other words, with such a proposal you must be able to show how you can reasonably carry through financially the program you advocate, first, without running into the danger of inflation, and secondly, without burdening the taxpayer.

Mr. BEECROFT: Yes.

Senator CRERAR: I am sorry I was not present for the reading of the earlier part of your brief, but in glancing hastily over the brief it seemed to me there was a lack there. You put forward a fine theory but how are we going to carry it out? What is to be the financial responsibility? The municipalities say "We ought to have more housing in our municipalities but we can't afford it." Therefore they urge the provincial Governments to do it, and that has actually happened. The provincial Governments say "Well, our resources are limited and therefore we will push it over on the federal Government." But in the end someone has to pay for it. Now, who should pay for it? Should we build houses that will be a drug on the market, and consequently a liability for someone?

The CHAIRMAN: Senator Crerar, you will remember that this question came up before—the question on low-income housing—and I asked Mr. Beecroft to come here today and give us a talk on community planning. I also asked C.M.H.C. to send some officials here today to discuss this part of the problem, and I suspect they are prepared to do so. We have with us today Mr. Stewart Bates, the President of C.M.H.C., who very kindly came along himself, accompanied by J. S. Hodgson, Executive Director; H. W. Hignett, Executive Director; K. C. Joynes, Liaison Officer; R. T. Adamson, Chief Economist; S. A. Gitterman, Advisor on Construction, and V. C. Dale, Assistant Secretary, Canadian Housing Design Council.

I feel that the questions now being put to Mr. Beecroft are getting just a bit out of his field. He came here to discuss planning but when you come to the financial aspect of it I think we should have somebody else give evidence. Therefore, with the permission of the committee, I am going to relieve Mr. Beecroft of the responsibility of answering these questions and I shall ask Mr. Bates to come forward.

Senator CRERAR: In other words, you are going to ask Mr. Bates to explain Mr. Beecroft's brief.

The CHAIRMAN: No, I can't do that but I am going to ask Mr. Bates to answer your questions at some stage of the game.

Senator BURCHILL: Before Mr. Beecroft leaves I should like to ask him a question. Unfortunately I arrived late and I am not sure of the association he represents. Mr. Beecroft, do you represent a national association?

Mr. BEECROFT: Yes, a national non-profit citizens' association.

Senator BURCHILL: Where are you located?

Mr. BEECROFT: Our national office is here in Ottawa.

Senator BURCHILL: Have you branches in the other provinces?

Mr. **BEECROFT**: We have quite an active branch in British Columbia and we have an office in Toronto. We have some part-time staff and quite active citizen groups in a good many of the large metropolitan areas.

Senator **CRERAR**: How is your association financed?

Mr. **BEECROFT**: As I mentioned at the beginning, our association is financed by contributions from some 3,000 members scattered across Canada. This membership is made up of a great variety of architects, engineers, municipal officials, builders, private citizens who are interested in housing and planning, municipalities themselves, about 200 of which contribute to the association in sustaining fees, and by nearly all the provincial Governments and by the federal Government under part 5 of the National Housing Act.

Senator **EULER**: What have you actually accomplished so far?

Mr. **BEECROFT**: That is a good question, which I would like, Mr. Chairman, to discuss very candidly and fully. I believe that over the years we have accomplished a great deal in one respect. We have succeeded in helping the municipalities to understand the need for engaging qualified technical planning staffs, and I believe we have helped to accelerate the efforts of many of the provinces to find ways of giving adequate technical assistance to the municipalities in connection with urban planning. In the last few years we have been in much more direct contact through our conferences and literature, and so on, with the elected officials themselves, who represent the public and who are responsible in the last resort for shaping our communities, and this has helped.

Senator **PRATT**: Do all the provinces have members in this association?

Mr. **BEECROFT**: Yes.

Senator **PRATT**: Has each province its own provincial organization which works in close co-operation with the national association?

Mr. **BEECROFT**: We have a provincial division in all provinces except one.

Senator **PRATT**: Which one is that?

Mr. **BEECROFT**: New Brunswick.

Senator **PRATT**: How often do the representatives of these various divisions meet on a national scale?

Mr. **BEECROFT**: We have one annual national meeting of members to discuss planning problems, and this meeting usually lasts about four days. Our National Council meets at least twice a year, and our smaller executive body meets about four times a year.

Senator **WHITE**: I should like to ask Mr. Beecroft one simple question before he leaves. On page 2 of his brief under the heading " A National Housing Policy" I see the following words under subparagraph (b) of paragraph 3:

> "By encouraging strong measures to enforce maintenance standards for existing housing—thus compelling proper conservation measures . . ."

Please tell me which Government you had in mind, and whether you do not think that this suggestion is rather drastic?

Mr. **BEECROFT**: The municipal Governments are the ones mainly responsible for compelling observance of standards. The provinces can do a great deal to encourage this, and there is much that depends on the actual use of initiative by the municipalities.

Senator **WALL**: I do not want to use the word "compelling" but in order to set up a planned community within whose framework the municipality or private builders could sell land, you would have to set up more or less a compelling framework if you are to realize the fruition of the hopes you have of planned communities which would not finally deteriorate. In other words, setting up a compelling framework is almost crucial if you are going to carry out the concept outlined in your brief.

Mr. BEECROFT: All of us who have been talking about community planning in the last 13 years since the war are just beginning to realize that in the next 12 or 13 years one of our big problems of implementation is to face up to this question of how to control the development of land by purchase. In many parts of Canada, a great deal has been accomplished to implement planning by zoning. My prediction would be that one of our biggest problems in the next few years will be how to assemble land, create a master plan and to get the planning action implemented, whether by purchase or by zoning or by some other method.

Mr. CHAIRMAN: Thank you, Mr. Beecroft, very much. I shall now ask Mr. Bates if he will come forward. As I have already stated, gentlemen, there seems to be a very keen interest in low-cost housing. Some of the officers interested in planning and designing have come, and in addition Mr. Bates himself is here and has had a brief prepared, which I am going to ask him to read. When he has concluded his brief, the committee will be open for questions, and I shall ask Senator Crerar to ask questions first, because I am afraid I shut him off a moment or two ago.

Senator CRERAR: I shall not interrupt Mr. Bates while he reads his brief.

Mr. Stewart Bates (President, Central Mortgage and Housing Corporation): Gentlemen, I understand you wish me to make a statement regarding the provision of housing for low-income families. May I deal with this under two headings. First, what is the National Housing Act contributing to the solution of the housing problems of families of lower income? And second, what can be done to reduce the cost of housing.

Most families with incomes of less than $3,000, do not live in new houses. Families with this low an income, particularly in urban areas, more often than not rent accommodation and usually the rentals which they can afford limit them to the older properties. Where families in this income bracket want to buy a house of their own, they usually find that they cannot afford to buy a new house—any more than they can afford to buy a new car.

The National Housing Act, as you know, provides financial assistance only for the building of new housing. This is a matter of Government policy. Any suggestion to assist in the purchase of existing housing would require an amendment to the Act by Parliament.

We have, of course, special programmes aimed at providing low-cost housing, and particularly low-cost rental housing, and I shall have more to say about this in a moment. But the vast majority of the houses built under the Act are beyond the means of the families in the lower third of the income range. However, I should point out that we can still make a very large indirect contribution. Anything that increases the rate of new housebuilding must, in time, have an effect on the general living conditions of all Canadians. Indeed, one of the reasons why so many families live in poor housing today is the fact that the rate of housebuilding in the past has not always been adequate. I am thinking particularly of the thirties and early forties when the rate of new housebuilding fell to very low levels. In many years the number of new houses built was not enough to take care of the increase in the number of families living in the country. The shortage has tended to sustain the price of old houses. Moreover, some of the older housing that might have been expected to prove uneconomic and been torn down has continued in existence because of the continued high demand for housing. So I am saying, therefore, that the provision of new housing, no matter what price range it goes in at, will ultimately help to ease the housing problems of all families, including those in the lower income brackets.

How Can People of Low Income Obtain Housing Under the National Housing Act:

Until recently their chance of obtaining a home under the insured mortgage arrangements in the Act were poor. These loans were made almost wholly by private lenders—banks and life insurance companies—and the Corporation simply acted as the insurer of the loan. Prescribe certain standards of building and on a minimum term for the loan, but the initiative as to whether the loan was made or not rested with the private lender. Moreover most of the new housing built under this section of the Act was put in by builders building for sale, and their judgment of the market influences the type of housing that comes to be financed under the Act.

The average income of borrowers obtaining NHA loans from private lenders has been climbing steadily. In the period 1946 to 1957, the average borrower's income has risen from $2,428. to $5,857.

Here is what is happening now. Only about 6% of the loans made by private lenders under the Act are to people with individual incomes of less than $4,000 and only a fifth of one per cent are made to those with incomes of less than $3,000. The bulk of these loans are being made to people in the $4,000 to $5,000 a year class. This does not mean that the Act does not permit people of lower income to obtain insured loans. It is a question, on the one hand, of the size of mortgage required to finance the type of houses being made available by private builders and, on the other, of the type of house that private lenders are prepared to make loans on.

The direct lending activity of the Corporation prior to May 22nd was confined to centres of less than 55,000 population. This meant, in effect, that an applicant living in an urban centre had no prospect of obtaining a loan were he refused by an approved lender. Although the agency plan made an important contribution by providing Government funds for housing at a time when mortgage money was short and ensuring that this money was used for housing for persons of modest means, it in no way altered the fact that the decision whether to lend or not still rested with the approved lender.

At the present time, an applicant of low income can obtain a loan, however modest, to build a home—provided it conforms to the Housing Standards. The introduction of the agency arrangement had the stated motive of providing mortgage funds for more modest homes. The success of this plan can be seen in the drop of $900 in the average applicant's income, compared with the insured loan borrower. Indeed nearly 60% of all borrowers under the agency plan, during the first quarter of 1958 had incomes below $5,000 and, of these, one quarter had incomes below $4,000.

Following the termination of the agency arrangement, the Corporation announced, in May of this year, that it would make direct loans in any centre, regardless of population.

If a borrower shows that he can build a modest home for a figure down as low as $7,000 or $8,000, exclusive of land, the Corporation will make a loan if he cannot obtain one from an approved lender. In fact approved lenders are making loans on just such properties as these in several parts of the country. Where land costs $2,000, for example, a borrower with an income of $3,200 can afford to pay $8,000 for the structure.

Facilities are already available, under the National Housing Act, for the financing of low-cost housing, whether it be for rental or for sale.

Short of the Federal Government, through its housing agency, entering the field of direct construction, however, we must rely upon influences and persuasion in reducing the market prices of housing.

Limited Dividend Projects:

In the rental field, cheap money is already available in the form of loans to Limited Dividend Companies, whether they be profit-making concerns or charitable organizations. To ensure that no unnecessary frills are installed in these projects, Central Mortgage and Housing Corporation closely examines the location, need, and preliminary plans for each project. It is felt that low rental accommodation, financed under this section of the Act, should provide the minimum accommodation, commensurate with health, safety and good design.

Rentals for these projects are geared to the actual operating costs and mortgage charges. In cases where a profit is required, 5% return on the equity invested is the maximum which is allowed.

Rental ranges obtained by free enterprise Limited Dividend Companies have proven to be well below the market rentals for the areas. For example, in Montreal rents of $68.50 a month for a 3-bedroom apartment have been obtained.

Similar accommodation in other cities have rented for:—

$70.00 in Ottawa, $62.50 in Winnipeg, and $67.00 in Edmonton.

Federal Provincial Projects

Under Section 36 of the National Housing Act, the Federal Government, in partnership with the government of any province may provide rental accommodation for persons of low or moderate income. In such cases, 75% of the cost of the project is borne by the Federal Government and 25% by the Provincial Government.

Projects constructed under this arrangement may be either completely self-supporting or partially subsidized by the Federal Provincial partnership.

In the case of the self-supporting projects, the rents are set at a level which covers maintenance and operating costs, including taxes, plus full recovery of capital costs over a period of fifty years. These are so-called full recovery, self-supporting projects.

Subsidized projects are designed to provide accommodation for an even lower income group. The rentals obtained in such projects do not meet the operating costs and this deficit is absorbed by the Federal Provincial partnership on the same 75%/25% basis. Rentals paid by individual families are varied according to income and family size. These rents are reviewed periodically.

Up to the end of 1957, Federal Provincial partnerships had been responsible for 29 full recovery projects and 26 subsidized projects situated in six of the ten provinces.

What Can Be Done To Reduce The Cost of Housing:

The element of control by the Corporation is far less in the field of home ownership than in the case of rental accommodation. Here, the market dictates what the builder provides. The consumer and not the Corporation is the ultimate judge of whether the product is satisfactory or not. Certainly, structural limitations are applied in the form of the Housing Standards, compliance with which is mandatory for any loan made under the National Housing Act, but the general public, for some years past, has been demanding more and more. This trend has forced the price of housing up far more than any increase in building costs.

To reduce the end cost of the product a process of subtraction must take place. In other words, to achieve low cost housing in the present market, there must be a change in the end product. This would also enable the public to see what they are, in fact, paying for housing luxuries. This change can be brought about in several ways.

Reducing the Floor Area

The typical NHA house is very substantially above the minimum housing standards, particularly in terms of liveable floor area. Therefore, a number of economies are readily available in areas where municipal by-laws permit.

The average area for a one-storey single family dwelling in Canada in 1957 was 1,154 square feet which compares with 839 square feet in 1947, an increase of 37%. While part of this increase is due to larger families, the fact remains that it is physically possible to produce well-designed three-bedroom houses of about 900 square feet and two-bedroom houses of 750 square feet. Neither of these areas contravene the space requirements of the housing standards.

Use of Row Housing

Mention is fequently made of the rising costs of serviced land. The use of row housing permits better land use, coupled with savings in construction costs and servicing costs. Unfortunately, some municipalities do not regard row housing are being suitable for owner occupancy. The erection of good row housing projects should be beneficial in demonstrating their potentialities.

Elimination of the Basement:

Basementless construction offers some saving in construction cost. This saving is offset, to a certain degree, by the additional area needed for heating and storage space. the net saving, therefore, is not substantial.

Postponed Finish

Between 1945 and 1950, the 1½ storey house with the upstairs unfinished was very popular. The purchaser of such a house completed the spare bedrooms in his spare time with his own labour and savings. Provided the exterior finish is completed before sale, this method offers a useful opportunity to a purchaser of modest income.

Reduced Quality

The elimination of frills and amenities is primarily a question of sales appeal when the house is being built by a merchant builder. No such problem exists in the case of an owner-applicant. Any person desirous of building a house to the absolute minimum set out in the Housing Standards can obtain mortgage financing for the purpose. Such a house would fall far below the average product offered for sale today.

In urban locations it is much more difficult to build a truly stripped-down house, chiefly because of municipal by-laws. Even accepting this fact, it is still possible, in an urban area, to build a minimum house for a price well below that of the average NHA house.

In the remote or outlying areas, it is possible to effect much greater economies. At an earlier hearing of the Committee I mentioned a number of items which could be omitted from a house without contravening the Housing Standards.

Cost of Land and Services

You will note, gentlemen, that my comments up to this point, have referred solely to the cost of the structure. Perhaps, even more important is the necessity for reducing the cost of land. Even a cheap house, if placed on expensive land, is beyond the means of the families now under discussion.

Our records show that the average price paid for a lot has risen from $523 in 1947 to $2,582 in 1958. Indeed, in some metropolitan areas it is impossible to buy a serviced lot for less than $5,000. It should be explained that the figures

I have given tend to overstate the true increase. In 1947 it was customary for the cost of services to be paid for over a period of years by means of a local improvement tax. Today, these services are usually provided by the builder or land developer with the consequent reflection in the higher cost of the lot. In this respect, mortgage debt has been replacing municipal debenture debt.

Still another factor is the tendency of some municipalities to insist upon an unduly costly specification for ground services installed by developers, to restrain future maintenance costs.

Undoubtedly, however, the principal factor in the price rise is the shortage, itself, of serviced land. The critical factor in this shortage is not the small gauge pipes fronting the individual lots, but the heavy trunk sewer and water lines and central plants which must be available if serviced land is to be produced.

Other witnesses have already expressed their views on the financial participation in the provision of trunk services by the Federal Government.

Projects Currently in Process:

The achievement of low-cost housing is constantly occupying the attention of the Corporation. The Committee has already heard evidence of the economy house built under the auspices of the National Home Builders Association. This house, which received the co-operation and encouragement of the Corporation, has been successfully built in two locations. The Corporation and the National Home Builders Association are presently co-operating on two other "economy" homes which will be developed during 1958 and 1959.

We are currently at work on the design of an absolute minimum house which will be suitable for construction in the remote areas.

It is hoped that this house will be constructed for a cost of about $5,000. If this proves to be the case, the mortgage repayments and taxes can comfortably be carried by a borrower earning less than $200 a month.

This design, with certain added amenities, will also be suitable for erection in urban locations.

The Corporation is also closely examining the Housing Standards in order to provide a brief and truly minimum specification which will not contravene the standards. Both the design and minimum specification will shortly be published.

In the meantime, research into construction methods and new materials is encouraged by the Corporation. Some of this work is being carried out in conjunction with the Division of Building Research of the National Research Council.

Last spring, a foamed plastic hut was erected in the grounds of the National Research Council for observation of the effects of the elements. This hut was constructed of a newly developed foamed plastic, light in weight and yet possessing sufficient tensile strength to be self supporting. It also combines service pipes within the floor for running electric wiring and water. If this experiment is a success, it will be further developed. At the present time, it appears to have achieved a saving of some five operations and four materials by combining all these in one material. It is hoped within the next six months to develop another plastic hut of a new material which may ultimately be foamed on the site.

Work is now almost completed on the preparation of a catalogue of building methods and systems. This catalogue contains data obtained from many countries of the world and is believed to be the first catalogue of its kind produced.

Perhaps the most important field of research is that of sewage disposal. Preliminary work is currently being carried out. This work contains a short-

term and a long-term objective. It is first hoped to achieve a more satisfactory method of sewage disposal than septic tanks and, at a later date, achieve a method of eliminating costly sewer pipes by the production of a small unit for sewage disposal which could be built into a house. While no quick results can be expected from this work, the importance of it must be underlined. Success in this endeavour might have a revolutionary impact on land costs and physical planning.

The matter of low-cost housing is not new to the Corporation. For years, the subject has been studied and every encouragement has been given to those who are willing and able to provide such housing. In a free enterprise system, however, it is not possible to force upon the ordinary citizen something that he does not want. To produce absolutely minimum housing is perfectly feasible, but the reality of the matter is that the standard of accommodation would not be acceptable to most ordinary buyers, even buyers of modest income.

The CHAIRMAN: Thank you, Mr. Bates. Senator Crerar, do you wish to raise the question with Mr. Bates that you raised with Mr. Beecroft?

Senator CRERAR: Mr. Chairman, the only observation I have to make is that Mr. Bates has given the answer to the question that arose in my mind when I was listening to Mr. Beecroft.

The CHAIRMAN: Do you have another question?

Senator CRERAR: I have no further questions, except to say that I confirm absolutely the observation Mr. Bates makes in the closing words of his statement, which reads:

To produce absolutely minimum housing is perfectly feasible, but the reality of the matter is that the standard of accommodation would not be acceptable to most ordinary buyers, even buyers of modest income. There is just the danger that we may be living too much in the clouds in this matter and may miss the practical realities. My own view is that it is unwise, as a matter of policy, to give the impression that we are saying to people, "Here is an organization just out to serve you—come along and make your demands." Human nature is not built that way.

This is a very admirable brief, Mr. Bates.

Senator PEARSON: Mr. Chairman, may I ask Mr. Bates if there is any solution to the problem of the high cost of lots?

Mr. BATES: You will recall that the National Housing Act contains a section covering land assembly operations, which can be carried out jointly with the provinces and with the municipalities. Some land assembly operations have been carried out, but they have been too little and too late; therefore, without any real effect.

What is the use of having 300 lots in Ottawa which we can sell reasonably cheaply because we bought them five years ago? It merely gives us a problem of trying to distribute them fairly. Who is going to get the benefit of this largesse, when other lots next door are going to sell for four or five times that amount?

No one I have encountered has yet suggested nationalizing the land around cities; so, we are left, so far as we are concerned, with a piece of legislation that can become operative only if a municipality asks us to co-operate with them. This is very useful in small towns where they may perhaps lay down enough lots to do them for several years: we have a number of such smaller towns in Ontario where we have co-operated in land assembly projects. In these towns it works, but when we come to cities like Ottawa and Toronto, the land assembly projects are just not adequate. The price goes up on the very

scarce commodity. It is not land that is scarce, it is serviced land; it is the big pipes, the big water mains that are still scarce. The developer can look after the other things.

Senator CRERAR: Would it be any help, Mr. Bates if the municipality put a substantial surtax on the vacant lots that are being held in the hope of the price being forced up?

Mr. BATES: No doubt there are many interesting ways in which municipalities could finance this operation, and that is one of them.

Senator PEARSON: Could you not restrain the price rise on approved property by limiting the amount of C.M.H.C. mortgage loans with respect to such land development?

Mr. BATES: This would be a very bureaucratic undertaking, and we have not seen any evidence that the people of Canada want a stringent control of this type. There is no doubt that controls could be developed that would work one way in St. John's, Newfoundland, and another way in Etobicoke or Scarborough. All of this could be done but it would be a fearful operation for any federal agent to take, since in the end this is essentially the business of the provinces and municipalities. I believe that up to this time the various federal Governments have taken the view that while they are in housing they are in it as an aid rather than as a direct leader in the development of communities. This seems to have been the philosophy.

Senator HORNER: The servicing of land for housing purposes is primarily the responsibility of municipalities, is it not?

Mr. BATES: Quite. Today most of our municipalities have urban districts and some of the larger centres constitute a conglomeration of municipalities. This sort of condition calls for action by the provincial governments in order to implement a satisfactory policy with respect to supplying water and sewers, and other services. In other words, you can no longer look at the municipality of, say, Malton, and determine what is required in Winnipeg, for instance.

Senator HAIG: There is another factor there. You have talked about water and sewers. In connection with Winnipeg, the water comes into the whole area from 130 miles away and the capacity limit has been reached. They are bringing in 25 million gallons a day and in order to bring in any more there will have to be an aqueduct built. Who is going to build it? Am I as a property owner to pay extra taxes so that you, living miles away, can have water? I don't think so.

Mr. BATES: Presumably I am going to pay taxes where I am living in another subdivision. The solution can only be found in a mass project. It requires a metropolitan outlook. I am not saying that it should be a metropolitan council, the same as Toronto has; it may be a Water Board the same as Vancouver and some other cities have. Clearly, however, the problem cannot be solved by individual municipalities.

Senator PRATT: Each area has its own problems which come under either municipal or provincial and municipal jurisdiction. There was a terrific problem in the centre of St. John's, Newfoundland, not long ago. It was terribly congested. Outlying districts were expropriated and taken over and a housing corporation was set up. That nipped the conditions then prevailing in the particular place. Some people were very dissatisfied because their land was taken over, but it was done on an appraisal basis of values existing at that time. Then there are other areas outside the municipality of St. John's, and that is where the province takes over. These areas are just developing into municipalities. So there is no such thing as uniformity of problems anywhere, is there Mr. Bates?

Mr. BATES: No, but there is this fact that we have to face. We have in Canada 6 million school children and there are 3 million families that have to be housed. We do not have to go looking for immigrants. We have them here. It means adding 3 million to a housing stock of 4 million. It means we almost have to double our housing stock, and this can only be done by developing metropolitan areas and finding necessary financing for the required services. In this sense you may say we have a national problem. We have 3 million families to be housed and clothed. Factories have to be developed and jobs found. There will be a tremendous capital search on the part of Canadians for the next 10 to 20 years.

Senator PRATT: The plans have to be set up by the municipalities themselves or in conjunction with the provinces, and then have the federal Government brought in.

Mr. BATES: Quite.

Senator SMITH (*Queens-Shelburne*): Mr. Bates, would you comment on the idea of the provinces supplying more housing through greater use of co-operative housing schemes?

Mr. BATES: Yes. One might say that the co-operative operations have been very successful in Nova Scotia. There has not been the same drive in the other provinces. This drive in Nova Scotia may emanate from the work done by St. Francis Xavier University in the past 20 years. We are passing housing schemes every week. We approved one last week for Sydney, Nova Scotia, for 10 units averaging about $4,500 per unit. This is very economical and worthwhile housing. These housing schemes require personnel who have field training. Co-operative housing can work successfully if you have this personnel. Incidentally, a good deal of this training has to be done on the spot. We have not had any trouble with these schemes in Nova Scotia, and we have there the lowest-cost housing we have in Canada. I think I am right in that statement.

Senator SMITH: Under which section of the act does that co-operative housing scheme operate?

Mr. BATES: We have a special deal with the province of Nova Scotia under section 36 of the N.H.A. It is the only such deal we have in Canada. No other province has asked us to put together the same kind of deal to aid the Co-operatives. They have a housing commission there which is run by the provincial Government. It helps to seed these local groups and it provides them with information. It has been headed with great enthusiasm by Dr. Prince.

Senator PRATT: And it works very well?

Mr. BATES: Exceedingly well.

Senator PRATT: That should be publicized.

Senator PEARSON: Is it for single houses?

Mr. BATES: Yes, and rows. There are varieties.

Senator BURCHILL: You have been talking about urban communities. What are the requirements under the act with respect to space for rural communities?

Mr. BATES: Well, 7500 square feet is the minimum for septic tank purposes. They will not allow a septic tank to be laid down smaller than that because of the danger of spilling over into other people's lots, as well as danger to themselves.

Senator BURCHILL: Has that been studied very carefully; that is the minimum?

Mr. BATES: Yes. The National Research Council people have worked on this. But actually, you know, senator, every piece of ground is different. You can have some soils exceedingly porous, and others very clayey and difficult, so when your engineers strike a figure and say 7500, they are saying "Well, we are doing this because we simply cannot investigate every lot across the country." This 7500 is a good average, and the average that keeps us out of difficulty. It is not only ourselves, but also our neighbours that get into difficulty.

The CHAIRMAN: Senator Wall?

Senator WALL: I have a minor question following up that of Senator Smith's. Suppose in Winnipeg or Regina, or some place, ten or fifteen people wished to associate themselves in a co-operative building venture on ten or fifteen lots, does the Central Mortgage and Housing Corporation provide them, or can it provide them, with field people to give them advice and guide them? Where do they go for that kind of technical advice?

Mr. BATES: We can only give advice within certain limits. That is, we cannot really get down to the job of being foreman as the job proceeds. We will do an ordinary inspection of it, and advise. But we are quite prepared to encourage this in any area, and if need be send somebody to talk with the groups. We do not deal with a group of anything less than ten. If it is smaller it becomes ineffective. And we do not deal with a group of more than 36 because when it gets above that it begins to take too long, and people get a bit tired waiting for their particular house to be built; if they have to wait three years it begins to pall on them a bit, and we insist on a six months period of study, and so on, before they launch, so that the whole thing will be carefully cut and dried and it will be known exactly what timbers will be needed, and how to proceed. Of course, you want to combine forces, you want to have a combined package, with carpenters, plumbers and electricians, to make the project run itself pretty well, and you simply have them build the houses. None of them knows which house he is going to get. It is just a matter of drawing lots, perhaps, at the end, so that nobody puts a little more electrical work, for example, into a particular house.

Senator HORNER: Would you inspect in every case where an application is made for ten houses, or a unit, under any plan; would you have somebody go and inspect a location and see if it is suitable?

Mr. BATES: We would give them advice. In Nova Scotia, the Housing Commission does a lot of that on its own, so we are not called in directly at that stage. But in other provinces—and I think there is a co-operative down here in Deschenes; that is in the province of Quebec, where we gave assistance directly, as well as advice.

Senator CRERAR: Do you find any large urban areas like Regina and Winnipeg, where there is a tendency on the part of the people from farms and small villages outlying to move in to the cities upon retirement?

Mr. BATES: I have seen no figures, unless Mr. Adamson can furnish them.

Mr. ADAMSON: We do not have the migration figures whereby we can tell exactly in the localities.

Mr. BATES: We just get them from the Bureau.

Senator CRERAR: I was curious, because from my own observation of the city of Winnipeg I know there are a considerable number. The second question I wish to ask is this: With regard to low-cost housing, you speak here of houses around $8,000. What cash requirement is necessary for such a house to be purchased?

Mr. Bates: A down payment of about $800.

Senator Crerar: Ten per cent?

Mr. Bates: Yes.

Senator Smith (*Queens-Shelburne*): And how much a month?

Mr. Bates: Here is one that was actually built. The total cost of the house construction, including overhead and profit, was $8,000. The lot on which the house was built was $500, making a total price of $8,500. The down payment was $800, and the loan $7,700. The monthly carrying charge, that is, principal and interest, so that the debt is wiped out in 25 years, is $49.27. The taxes were $12.50. That makes a total monthly payment of $62.

Senator Crerar: What would the income of the purchaser be?

Mr. Bates: I believe he could carry this at $2,800 income.

Senator Crerar: That is very useful information.

Senator Haig: What place in Canada would charge only $12 a month for taxes? Where would that be?

Mr. Bates: Preston, Ontario—that is where this house is built.

Senator Haig: Suppose that an individual has contracted to purchase a house of that kind, and if the husband is a working man and loses his job or becomes unemployed and cannot afford to continue payments what do you do then?

Mr. Bates: Well, if for example he has a loan from an approved lender, a bank or insurance company they will try to carry this man on as long as they possibly can, they will try to make arrangements with him. None of them want to get into a foreclosure operation, although foreclosure may become inevitable. There may be no alternative. In cases where the corporation has made direct loans, we do the same kind of thing. That is, we try to work out with each individual some solution. We have no national policy, we have a policy for each individual who is in trouble. We will sit down with that individual and try to work out some solution even if it is only to make a token payment for a period of time. This happens if you have general unemployment in some community, or if you have a strike in a community. Means must be found, of working out with each individual some modus operandi to try to keep them going as long as you possibly can. Things may come to the point where you are almost ready to foreclose and a trade union, for example, comes along and says we will pay the rent for our member. There may be a lot of that done before the rent is paid.

Senator Crerar: The tendency there, is that an individual who has purchased a house has an equity in the property, to begin with, an equity of 10 per cent, which accumulates yearly as he pays further, and so he has a very live interest in trying to retain his property.

Mr. Bates: Quite. And this we try to point out to him, that he does have this equity.

Senator Wall: There are two questions I would like to ask. On page 1 of your brief, Mr. Bates, and I do not want to document my remarks, but I have a strong belief that probably Government policy, the National Housing Act might well be changed to meet the problem of easier purchasing of existing housing. I would say I am convinced that a change is needed even though I recognize all the other things we are trying to do in order to meet the need of people with low incomes for owning homes. What problems would there be that would have to be watched for if there were such a change in the National Housing Act? What are the possible dangers?

Mr. Bates: It is difficult to point out the dangers, Senator Wall. After all, in the United States the F.H.A. finances existing housing as well as new housing. I think you would need a very careful set of appraisal operations to

make sure that you are not making too large a loan but I think the real problem is the tremendous volume of financing that would be required. I think you must appreciate that this field of used housing is now looked after by the insurance companies; they feel that this is an area in which they can do special business and they do it. It is true the maximum loan may only be 60 per cent of the value, but to have the federal Government involved in it, especially if you are going up to a 90 per cent loan, would require very heavy financial contributions. Now, it is true you may be repaid over the next twenty-five years but at this stage where people are living in used houses and find it difficult to sell, if we were to come along and offer a 90 per cent loan there would be a vast turnover for a period of time. People will be finding themselves with a few thousand dollars in hand that they had not expected, and these dollars might go into the purchase of automobiles and other things, they would not necessarily go into housing again. Until you are in a national position, and I think this has nothing to do with us in a corporation, where there is a complete adequacy in the flow of mortgage funds those in Government would have to look pretty carefully as to the timing in making a move of this kind.

Senator WALL: Suppose I ask this naïve question: Private institutions will lend up to 60 per cent of the value of a used house. Suppose we felt that the national policy could raise that figure to 80 per cent and we would somehow guarantee the loan, would there be a danger in that kind of an idea that has not been forseen?

Mr. BATES: I understand, Mr. Chairman, you have not met with the Dominion mortgage people yet. I suggest that the ones to pursue that question with would be the Dominion Mortgage Investment group when it comes before the committee. They could speak with a great deal more freedom than I on that subject.

Senator CRERAR: Mr. Bates, do you have any serious difficulty with collections?

Mr. BATES: No serious difficulty.

The CHAIRMAN: Any further questions?

Senator SMITH (*Queens-Shelburne*): Mr. Chairman, I would like to have a correction made in the record of the proceedings of July 3. At line 30 of page 114 I am reported to have said that the federal Government's financing for the fiscal year was, "to the amount of $350 million".

I should have said, and I thought I did say, $3½ billion. I would ask that correction be made in the next printing of the proceedings of the committee.

The CHAIRMAN: May I extend the thanks of the committee to Mr. Beecroft and his associates, and to Mr. Bates for their fine presentation to the committee today.

Whereupon the committee adjourned until July 17, 1958.

1958

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE

on the Report of Central Mortgage and Housing
Corporation for the fiscal year ending
December 31, 1957.

No. 6

THURSDAY, JULY 17, 1958

The Honourable C. G. Hawkins, *Chairman*

WITNESSES

Mr. A. H. Lemmon, First Vice President, The Dominion Mortgage and Investments Association.

Mr. Jules E. Fortin, Secretary Treasurer, The Dominion Mortgage and Investments Association.

Mr. E. J. Friesen, Vice President, The Canadian Bankers' Association.

APPENDIX A

Description of a household sewage disposal unit
and an experimental foamed plastic hut.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1958

Extract from the Minutes of the Proceedings of the Senate Wednesday, June 11, 1958.

The Honourable Senator Aseltine moved, seconded by the Honourable Senator Quinn—

That the names of the Honourable Senators Brunt, Emerson and Thorvaldson be added to the list of Senators serving on the Standing Committee on Finance.

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

THE STANDING COMMITTEE ON FINANCE

The Honourable C. G. Hawkins, *Chairman*

The Honourable Senators

Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Burchill
Campbell
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Dupuis
Emerson
Euler
Farris
Fraser
Gershaw
Golding
*Haig
Hawkins
Hayden
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Pratt
Quinn
Reid
Roebuck
Robertson
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
White
Woodrow—44

(Quorum 9)

**ex officio member.*

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate

TUESDAY, May 20, 1958.

With leave of the Senate,

The Honourable Senator Aseltine moved, seconded by the Honourable Senator Pearson—

That the Report of Central Mortgage and Housing Corporation for the fiscal year ended the 31st of December, 1957, be referred to the Standing Committee on Finance for consideration and report.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, July 17th, 1958.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.30 a.m.

Present: The Honourable Senators: Horner, *Deputy Chairman;* Brunt, Burchill, Connolly (*Ottawa West*), Crerar, Haig, Isnor, Lambert, Smith (*Queens-Shelburne*), Taylor (*Norfolk*), Turgeon, White and Woodrow.—13.

In attendence: The official reporters of the Senate.

Consideration of the order of reference of May 20th, 1958, was resumed.

The following were heard and questioned by members of the Committee:—

Mr. A. H. Lemmon, First Vice President, The Dominion Mortgage & Investments Association.

Mr. Jules E. Fortin, Secretary Treasurer, The Dominion Mortgage & Investments Association.

Mr. E. J. Friesen, Vice President, The Canadian Bankers' Association.

A description of a household sewage disposal unit and an experimental foamed plastic hut, submitted by Mr. S. A. Gitterman, Adviser on House Construction, CMHC, was ordered to be printed as Appendix A to these proceedings.

At 12.10 p.m. the Committee adjourned until Thursday next, July 24th instant, at 10.30 a.m.

Attest.

John A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, THURSDAY, July 17, 1958.

EVIDENCE

The Standing Committee on Finance, to which was referred the report of the Central Mortgage and Housing Corporation for the fiscal year ended 31st December, 1957, met this day at 10.30 a.m.

Senator R. B. Horner in the chair.

The Acting CHAIRMAN: Will the meeting come to order please? Senator Hawkins, who is chairman of this committee is unable to be present this morning owing to the death of his brother. I am sure he would have liked to be here this morning as we have some very fine briefs to be presented to us.

We will now call upon Mr. Lemmon to present the brief submitted by the Dominion Mortgage & Investments Association.

A. H. Lemmon, Vice-President, Canada Life Assurance Company, called.

Mr. LEMMON: Mr. Chairman and honourable senators, The Dominion Mortgage and Investments Association is pleased indeed to accept the invitation of your chairman to appear before it and to make available such information as may be useful to the committee.

I am here today in my capacity as first vice-president of the association. It had been the intention of the association's president, Mr. O. B. Thornton, to be here but for reasons of health he is not here this morning.

With me are Mr. G. A. Golden, Superintendent of Mortgages, Sun Life Assurance Company; Mr. C. F. Mackenzie, General Manager, Canada Permanent Trust Company, and Mr. Jules Fortin, Secretary Treasurer of our association.

It will be the endeavour of these gentlemen and myself to answer whatever questions you may desire to ask. I shall now proceed with reading the association's submission.

The association is a voluntary organization of 25 life insurance companies, 15 trust companies, 1 savings bank and 7 loan companies. It was formed in 1916 and since then has provided a focal point to discuss and deal with matters of common interest to those companies in regard to their investments. While it does not include all such companies in Canada, its membership represents the major portion of the business in Canada. The association operates by way of making recommendations to member companies, each company being free to accept or reject them.

The members of the association do business throughout the whole of Canada. Exclusive of $4,722 million of estates, trusts and agency funds administered by member trust companies, the assets in Canada of member companies at the end of 1957 totalled $6,699 million, of which $3,009 million was invested in mortgages on real estate in Canada.

These companies are a major source of long-term credit in Canada. They invest in the bonds and other securities of Canada, its provinces, its municipalities and school districts. They finance public utilities, industrial and commercial enterprises in their long-term capital requirements. They provide a major part of the mortgage funds which assist in the construction and purchase of housing. At the end of 1957, of the total invested in mortgages on Canadian real estate by member companies, 84.59 per cent was on residential properties.

The funds that these companies have for investment as represented by their assets are entrusted to them by the public of Canada through the sale of life insurance, the deposit of moneys with loan and trust companies and the sale by these companies of their debentures and savings certificates. These funds must be invested in such a way that they can be returned in due course with interest to policyholders, depositors and holders of debentures and certificates. It follows that a policy of careful selection, continuing supervision and wide diversification must be pursued. In so doing these funds flow into those avenues of investment which from time to time afford the best income return within the factors of safety, liquidity and administration cost. The assets of the companies are not static. They are a dynamic, growing, revolving fund constantly being adapted to the economic needs of the community as investment and reinvestment takes place.

There is great competition for these funds. Canada, the provinces, municipalities, school districts, hospitals, public utilities, industrial and commercial enterprises, and the individual who wants housing, all have important and pressing requirements. All of the assets of member companies cannot be placed in any one type of investment, whether it be into bonds or debentures, mortgages in general or into housing mortgages in particular. Further, the financing of housing is not confined to the bare lot and house. It involves the financing of roads, sewers, watermains, light and power, schools, shopping facilities and the other amenities which have come to be looked upon as being necessary or desirable in community living as Canadians know it. Also transportation, commerce and industry have capital requirements which must be met if employment opportunities are to be available to enable the house purchasers to pay for their homes.

The provision of housing occupies an all important place in the investment transactions of member companies.

> 1. During the 11 years ending with 1957, member companies have approved mortgage loans on real estate in Canada involving $4,842 million that is excluding the government's share of joint loans under the National Housing Act, 1944 and "agency" loans under the 1954 Act. Loans for housing accounted for $3,928 million or 81.1 per cent and assisted in the financing of 776 thousand new and existing housing units.
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> 2. During the same 11 years, the assets in Canada of these companies, exclusive of estates, trusts and agencies administered by trust companies, have increased by $3,742 million. Thus the mortgage loans on property in Canada approved by the companies were $1,100 million greater than the increase in their Canadian assets. If repayments on and sales of mortgage loans of $1,955 million during this period are added to the increase in assets, then mortgage loans approved were 84.9 per cent of this total and those for housing purposes were 68.9 per cent.

The experience of the last few years by the member companies of the Association is as follows:

Gross Mortgage Loans Approvals—

	1957	1956	1955	1954	1953
			($ millions)		
New Housing	286	435	476	399	280
Existing Housing	119	134	139	103	85
All Housing	405	569	615	502	365
All Properties	497	694	742	606	440

Average Gross Loan—

New Single House $10,560 $10,613 $9,835 $9,042 $7,990 and $ 5,140 in 1948.

During the Second World War member companies used the bulk of the moneys coming into their hands to help finance Canada's war effort. By the end of the War, Canada bonds formed a large part of the assets of these companies. In the reconstitution of their growing portfolios to recover the balanced diversification of assets which management and experience have indicated as desirable, holdings of Canada bonds by the companies have been reduced substantially and other kinds of assets have been increased, notably mortgage loans. This reduction in holdings of Canada bonds made possible in considerable part the relatively high volume of mortgage lending by the companies in the post-war period. This source of funds has almost disappeared as most companies have probably reduced such holdings to the minimum considered desirable by them.

The lessened mortgage activity of the last two years, particularly that of 1957, is a reflection of the very high level of demand for other types of credit, and the consequent relative attractiveness of other types of investment, combined with the large proportion of their assets already held in their portfolios of mortgages by member companies. At the end of 1957, member loan companies held 78.9 per cent of their total assets in mortgages on real estate in Canada, member trust companies 36 per cent and member Canadian life insurance companies 42.8 per cent of their assets in Canada. For the first 5 months of 1958, in consequence of the change in the general level of interest rates and of the changed pattern of demand for credit, the gross mortgage loan approvals of all types by member companies show an increase of 38 per cent over those of the same period of 1957, those for housing showing an increase of 33 per cent.

The volume of funds of member companies seeking investment in the mortgage field is governed by many complex factors. In a general way, it can be said that it is something of the order of the reinvestment of mortgage principal repayments plus the portion of its net increase in assets which each company considers to be desirable in its own case to give effect to its own liquidity and diversification requirements in relation to the nature of its liabilities.

Commencing with the enactment of the Dominion Housing Act in 1935, Parliament, for both economic and social reasons, has moved in many directions to facilitate the provision of mortgage credit for housing, to improve standards of construction and to widen the area of effective demand by increasing the amount of the loan and by extending the period of amortization. In so doing, however, it has created for the lender risks additional to those recognized as being ordinary by legislation generally in effect in Canada

which sets the statutory limit of mortgage loans which the companies are authorized to make at a maximum of 60 per cent of appraised value. The companies were authorized to make higher ratio loans, originally jointly with the Government and, subsequently with Central Mortgage and Housing Corporation, and the additional risks were met by the partial guarantee provisions of the Dominion Housing Act and those of the National Housing Act, 1944. Beginning with 1954, these additional risks were partially met by the insurance feature of the Act of that year. To the extent of the funds available to them and in keeping with the principles already set out previously herein, the companies have cooperated fully in meeting the demand for housing mortgage credit.

Apart from loans under the National Housing Acts, the companies make mortgage loans on residential property to the maximum extent of 60 per cent of the value at which such property is appraised by the companies, such appraised value being generally less than sale price, at rates presently ranging from 6.75 per cent to 7.25 per cent with termination dates as short as 5 years. There is strong demand for such loans and they are granted by the companies in the ordinary course of business, and, having regard to risk and costs of administration, they fit in with the pattern of interest rates current in Canada.

Member companies have co-operated fully in the operations of the Dominion and National Housing Acts. They have done so notwithstanding that successive liberalization of the amount of loan has added to the risk. Member companies have no mandate to accept a rate of interest lower than the going rate from time to time, having regard to safety, liquidity and administrative costs. It will be appreciated that it costs much more to acquire and administer a portfolio of mortgage investments than it does a similar amount invested in securities. The attractiveness of insured mortgage loans under the present National Housing Act is closely dependant upon the adequacy of the insurance factor related to the risk and upon the adequacy of the net interest return in competition with the rates of return on alternative avenues of investment. For most of the year 1957 the return on N.H.A. mortgages was not competitive and the companies placed more of the funds they had available in alternative types of investment. So far this year and for the time being, the present 6 per cent gross return on N.H.A. loans, while not fully competitive, is more in keeping with rates of return obtainable in the money markets for comparable alternative types of security and N.H.A. loans by the companies have risen substantially.

To the end of May this year, housing starts have been considerably higher than for the same period of 1957, being some 60 per cent higher and at the end of May there were some 76,271 units under construction in Canada compared with some 60,594 units at the same time in 1957. In the experience of member companies, housing units under construction have been generally readily absorbed as they came to market so far this year. The large volume coming to market in the next two months or so gives rise to doubts that all units can be absorbed all at once in some localities and the companies are following a cautious approach in granting loan approvals where these doubts arise.

We are at your disposal to answer any questions within our ability.

The Acting CHAIRMAN: This is a very fine brief. I should like to say to you gentlemen who have appeared to give evidence this morning that it is unfortunate there are two other important committees of the Senate sitting this morning, the Standing Committee on Transport and Communications and the Special Committee on Land Use in Canada. I am sure that a great many of the senators serving on those committees would like to be here to take part in our deliberations. What is your wish, honourable senators? Do you wish to ask some questions now of Mr. Lemmon?

Senator **Brunt**: I would like to ask Mr. Lemmon what is meant in the brief by the last sentence on page 5 which reads, "Beginning with 1954 these additional risks were partially met by the insurance feature of the act of that year." I would like to know exactly what is meant by that.

Mr. **Lemmon**: I think Mr. Bates covered that reasonably well in his brief. There are three main areas of potential loss to lenders under the National Housing Act. In the first place, only 98 per cent of the principal claim is covered by the insurance policy. Secondly, there is a potential loss of interest since interest is allowed at the mortgage rate for only six months and then at a considerably reduced rate thereafter, and after 18 months there is no allowance. Thirdly, the allowance for foreclosure costs and other legal expenses is not realistic. On the average it would not cover half of the out-of-pocket legal expenses in the event of foreclosure. Therefore, an institution which forecloses the property and turns it over to C.M.H.C., has three potential areas of loss involved if it wishes to realize on a policy guarantee.

Senator **Brunt**: Mr. Bates also told the committee they had only six or seven foreclosures, and that they made a profit on them all. Does no part of the profit go back to the lender to reimburse him for his losses?

Mr. **Lemmon**: None whatever. It becomes part of the reserve fund of Central Mortgage and Housing Corporation to cover future losses. We make no recovery of these amounts.

Senator **Lambert**: I thought Mr. Bates said there was something like 400 foreclosures in the history of Central Mortgage, up to date. I may be wrong but certainly it was more than six or seven.

Senator **Smith** *(Queens-Shelburne)*: I think Senator Brunt's figures related to insured loans only.

Senator **Brunt**: Yes.

Mr. **Fortin**: May I add that if it takes three years to obtain title with possession, the lender recovers from the insurance fund approximately 88 per cent of his claim, so that there is an 11 per cent plus loss to the lender. On the other hand, if title and possession can be obtained within six months and foreclosure is started the minute the borrower defaults then the loss is 2 per cent on the principal plus whatever is lost on legal costs. It depends on the length of time.

Senator **Crerar**: Well, I would say this: You make quite a lot of loans through the Dominion Mortgage and Investments Association of one kind or another. I suppose you are making some direct loans from time to time without any insurance?

Mr. **Lemmon**: A good many, sir.

Senator **Crerar**: And you make a good many insured loans?

Mr. **Lemmon**: Yes.

Senator **Crerar**: And that has been going on for quite a number of years?

Mr. **Lemmon**: In the case of our company for over one hundred years.

Senator **Crerar**: That is what I thought. How have your collections been on these loans over the last, say, two years?

Mr. **Lemmon**: Remarkably good, sir. The percentage of delinquencies and defaults throughout our member companies have been uniformly low. I do not know if Mr. Fortin can contribute anything to that or not?

Mr. **Fortin**: I would say it is so small that you cannot express it into percentage.

Senator **Crerar**: Five per cent?

Mr. **Fortin**: No, less than one per cent.

Senator CRERAR: Then would you agree that the serious recession and unemployment talk we hear so much about has not affected the repayment of money on these houses?

Mr. LEMMON: That is quite true up to this date.

Senator LAMBERT: At the conclusion of your brief you express some doubt about the future.

Mr. LEMMON: The last paragraph refers not to the doubts on mortgages. We are considering the problem of whether there are too many houses being built in any one community.

Senator LAMBERT: Yes, that is the last sentence.

Mr. LEMMON: Yes, it is not a question of security of the mortgages, but just watching the market in individual communities across the country.

Senator LAMBERT: It might affect the demand for mortgages?

Mr. LEMMON: It might.

Senator LAMBERT: In other words, there is a question whether the house situation is not being overbuilt?

Mr. LEMMON: That is correct, sir.

Senator BRUNT: In certain areas.

Mr. LEMMON: That is right; it is not uniform.

Senator TURGEON: Any particular provinces?

Mr. LEMMON: No, I wouldn't like to stress a province-wide situation because it varies from community to community.

Senator HAIG: There is no shortage except in this respect, that a crop failure in a district will affect the situation under any kind of condition?

Mr. LEMMON: That is quite right, sir.

Senator HAIG: We in the western provinces, for instance, are having some difficulty with this year's crop, which naturally will not be a normal crop. I think there would be some shortages in that part of the country, but that would only be on account of crop conditions. No other condition would affect that as yet?

Mr. LEMMON: Mr. Fortin just called to my attention that the situation varies from community to community with respect to the price range of the houses. I mean, there may be an over-supply of $25,000 houses and a shortage of $10,000 houses, and vice versa; it is quite a varying condition.

Senator HAIG: That is for you to decide whether to lend your money?

Mr. LEMMON: That is what I mean by the last paragraph.

Senator SMITH *(Queens-Shelburne)*: You refer to the fact that you lend under the ordinary legislation up to 60 per cent of the face value. Does that have to do with used houses—old houses?

Mr. LEMMON: Both old and new.

Senator SMITH: I was wondering in connection with that kind of lending under ordinary legislation whether very much of your mortgage business is done on new houses where the appraised value is only 60 per cent?

Mr. LEMMON: Speaking for the association as a whole, it obviously varies from company to company. Some companies tend to make a specialty of lending on older houses, while some companies will not lend on old houses at all. I am sorry I cannot quote the figure of percentage on old and new houses, but there is a substantial amount of both.

Senator SMITH: I was wondering whether there was a substantial number of people building new houses today who would borrow money from your companies and pay from 6.75 per cent to 7¼ per cent on a shorter term mortgage.

I was wondering if a large percentage of new home owners are building homes under that technique?

Mr. LEMMON: Again, I think Mr. Bates covered that in his brief. Up to a certain price bracket—I think he mentioned $16,000 to $17,000. A very high percentage of the houses, up to perhaps 90 per cent, are financed under the National Housing Act. Houses over that figure would be, I mean, entirely financed under the 60 per cent plan.

The Acting CHAIRMAN: Mr. Bates mentioned something about a home builder who would do a good deal of the work himself.

Mr. LEMMON: Even some of those are financed under the Housing Act. The price bracket is the more important break.

Senator ISNOR: I think Mr. Bates gave a figure of $16,220. Mr. Lemmon, on page 5 you refer to the 60 per cent appraised value as being general.

Mr. LEMMON: That is specified by law.

Senator ISNOR: Prior to 1935, the year of the Dominion Housing Act, it was a higher rate, 70 per cent, was it not?

Mr. LEMMON: No. As far as the life companies are concerned the 60 per cent ratio has been in existence for many many years. I have been in the business for 30 years, and it goes back prior to that.

Senator ISNOR: You say that since the invasion of your field by the Central Mortgage and Housing Corporation under the provisions of the National Housing Act you have not felt obliged to increase that 60 per cent ratio?

Mr. LEMMON: The law has not permitted us to go beyond 60 per cent. The Insurance Companies Act and the Trust Companies Act and the Loan Companies Act limit us to 60 per cent of the appraised value. It is not our choice, it is the legal requirement.

Senator ISNOR: Would you care to give us your opinion, apart from the law, as to whether it would be advisable under present conditions to increase that 60 per cent ratio?

Mr. LEMMON: Mr. Chairman, I would not like to make a general statement on that. I think I would like to let it go at that. It is not a question that has been discussed among our member companies particularly at all. I would not like to make a general statement on that question.

Senator ISNOR: May I be permitted to change my question around a little, Mr. Chairman, and ask Mr. Lemmon the question is this way. Lending of course is your field. Would it increase your business if you were permitted to increase that percentage?

Mr. LEMMON: Would it increase our business if we were permitted? I think we are lending about all we can on mortgages at the present time.

Senator ISNOR: All you care to.

Mr. LEMMON: It is a matter of policy. All our companies think desirable. I will say this, that generally speaking the limits in the United States are 66⅔ per cent, not 60 per cent, and in some states it is 70, and even as high as 75. So 60 per cent tends to be on the low side of practice on this continent.

Senator ISNOR: Now you are coming more to my way of thinking.

Then you feel that the United States is more generous in regard to mortgage lending than we are in Canada?

Mr. LEMMON: The legislative requirements in the United States are more generous than the legislative limitations in Canada.

Senator ISNOR: Then I think it is quite safe for me to say that 70 per cent would help to make possible the building of more housing of the type that is required, it would tend to increase loans.

Mr. LEMMON: I do not think I can accept that, Mr. Chairman. I think that our member companies are approaching the limit of the percentage of their assets that they would desire to put into mortgages and I do not know that the lifting of the limit from 60 per cent to 70 per cent would increase the number of loans. I do not think that is a safe assumption.

Senator LAMBERT: Am I right in assuming that the investments of the loan companies today in mortgages increased over the percentage of investments in securities and so on?

Mr. LEMMON: Drastically, Senator Lambert.

Senator LAMBERT: The income of insurance companies from mortgages, for instance, has increased a great deal more in the last two or three years than the income from investments in bonds and stocks?

Mr. LEMMON: I am not sure of the Senator's meaning. Do you mean the interest return?

Senator LAMBERT: No, I mean the percentage of investments in their portfolios.

Mr. LEMMON: Definitely, Senator Lambert. The life insurance companies particularly came out of the war, as I said in my brief, with a very high percentage of their assets in Government bonds, and a very low percentage in mortgages. Now we have come to the percentage mentioned in our brief.

Senator LAMBERT: I would go further and say the returns from those mortgages have been more profitable than from any other source of investment they make.

Mr. LEMMON: Generally speaking, mortgages yield gross much more than securities do. There is an expense factor involved of course, but I would say, generally speaking, the net return is perhaps more attractive in securities, and that is why we have increased our percentage.

Senator LAMBERT: The annual reports of the companies do show that.

Senator CRERAR: As you will admit, Mr. Lemmon, we are building a lot of houses. Do you have any idea as to whether we may be building too many houses or not? Has that had any consideration among your association members?

Mr. LEMMON: I would like to answer that this way, Senator Crerar, if I might. Our member companies, as I indicate in the last paragraph of our brief, are watching the market for housing very closely community by community, and if it appears to us that more houses are being built in a community than are being readily sold then we reduce our loans in that community. On the other hand, if the houses are being absorbed readily by the market then we do not. As I also say in the brief, so far our experience has been that houses are being readily taken up by the market. How long it will continue I would not like to say.

Senator CRERAR: One other question. The primary job of the committee now is to consider the annual report of the Central Mortgage and Housing Corporation. Might I inquire how your relationships are with the C.M.H.C. Do you get along amicably with them?

Mr. LEMMON: Generally we get along very amicably with them. As is the case in a business relationship of that nature there are differences of opinion which are sometimes argued with some heat involved, but, generally speaking, the relationships between our member companies and the C.M.H.C. have been excellent.

Senator CRERAR: You feel that they hold their own end of it up pretty well?

Mr. LEMMON: We sometimes think they might even go further than that. In discussions with our group they certainly hold up their end very well.

Senator SMITH (*Queens-Shelburne*): Have you had any disagreement to any extent in connection with the appraising of housing as between your appraisers and the appraisers of C.M.H.C.?

Mr. LEMMON: Certainly, that is inevitable. Two appraisers will not look at the same property in the same light.

Senator SMITH (*Queens-Shelburne*): Is it a problem to you to the extent that you would find it difficult to lend money to a young man who wants to build a home arising out of the fact that the appraisal of the C.M.H.C. may be $1,000 less than the appraisal made by any of your companies?

Mr. LEMMON: As I say, there is a difference of opinion between our appraisers and their appraisers. Sometimes our appraisals are less than theirs and sometimes higher. Sometimes there is a little local feeling that one office may be a little rougher on a certain type of house than they might and we get complaints from our managers about them. On the other hand, in another area we have examples of the C.M.H.C. going beyond what we are prepared to do. The problem is local, minor, and not a major problem. It is the sort of disagreement between two appraisers, each having their own ideas of value.

Senator SMITH (*Queens-Shelburne*): Thank you.

Senator CRERAR: You would find the same problems outside the C.M.H.C.?

Mr. LEMMON: Certainly. Our member companies themselves do not agree on the appraisals of properties.

Senator CRERAR: Would you care to give us an opinion or your judgment of the likely trend of interest rates on loans on this character?

Mr. LEMMON: That is an awfully difficult question to answer, Mr. Chairman. I do not think I can answer it. Certainly since last fall interest rates generally have come down, not only in Canada and in the United States, but in the sterling and other areas.

I am not trying to dodge the question, but literally I feel the answer depends on business conditions. If recovery sets in soon, which most of us hope and expect will happen, the demand for money will be stepped up again, and may very well firm up interest rates. On the other hand, if business conditions do not recover, contrary to our expectations, the reverse may happen. I am sorry I cannot be more definite.

Senator SMITH (*Queens-Shelburne*): Has not the increase in interest rates already happened, with regard to the recent re-financing?

Mr. LEMMON: I was hoping nobody would bring that question up.

Senator SMITH (*Queens-Shelburne*): It seems obvious to me—perhaps it is not so obvious.

Mr. LEMMON: Certainly interest rates on Dominion of Canada bonds have been increased as a result of the operation of the past week. What effect that will have on mortgage rates, I do not think anybody at this stage can say. I do not think I can go beyond that. Certainly, the rates on Dominion of Canada bonds have gone up. Mortgage rates move much more slowly, and do not fluctuate as widely. I think one would have to wait some months to see what the effect is going to be on mortgage rates.

Senator CRERAR: If interest rates rose above the present level of high grade bonds, say by three-quarters of 1 per cent, do you think that would be a factor in attracting outside money—when I say outside money, I mean money from outside the country—foreign investment in Canada?

Mr. LEMMON: I don't think there is any doubt about it, that more attractive interest rates would attract more money.

Senator CRERAR: Apparently there is capital either in the United States or Europe that might be interested in investment in Canada.

Mr. LEMMON: That is quite possible.

Senator ISNOR: Mr. Lemmon, would you care to expand on your statement in regard to the holdings of your company:

> In the reconstitution of their growing portfolio to recover the balanced diversification of assets which management and experience have indicated as desirable, holdings of Canada bonds by the companies have been reduced substantially and other kinds of assets have been increased, notably mortgage loans.

Would you care to enlarge on the reasoning back of that statement?

Mr. LEMMON: I think I have covered it to some extent, Mr. Chairman,. During the Second World War the companies put all of their income into Dominion of Canada bonds until they had a very high percentage of their assets in those securities. That is not a normal state of affairs: They do not normally have that percentage of their assets in Dominion of Canada bonds. That is, the various life insurance companies, loan companies, and trust companies that accept deposits have different requirements, but almost uniformally they had more Dominion Bonds than they would normally hold, and it took them some years to correct the proportions, to decrease their holding of Dominion Bonds and increase municipals, corporate lands, and mortgages, and effect a more normal distribution.

Senator ISNOR: That was brought about by the entry of certain interests into the field of lending.

Mr. LEMMON: No sir. The Companies started to do this immediately after the Second World War; as soon as the war was over they started to rearrange their portfolios.

Senator ISNOR: The war was not over until 1945 or 1946.

Mr. LEMMON: It was really 1946; the last Victory Loan was in that year.

Senator ISNOR: The Dominion Housing started its building in 1935, and later on its action was accelerated. It was then that you felt it was necessary to enter into the field of mortgage lending.

Mr. LEMMON: No, our companies have been in the mortgage business pretty nearly since they were incorporated; my own company has been in that over 100 years. The Companies have always held a substantial portion of their assets in mortgages. They got into a temporary situation during both wars, but whether C.M.H.C. was in the field or not, they still would have gone back into the mortgage business to a very substantial extent.

Senator ISNOR: Thank you.

Senator SMITH (*Queens-Shelburne*): Do you expect that within the next year, and following years, if we must have deficit financing in Government that there will be enough mortgage money available to continue building houses at the present rate, which I understand is about 140,000 to 150,000 houses per year? In other words, is Government financing going to dry up the source for mortgage funds.

Mr. LEMMON: To the extent of course that our institutions are required to, or desire to, support Government financing, and Government loans, it will divert funds from other sources of investment. If we expand further in one place, we do not have the funds for another place.

As to whether there will be enough money through the normal lending institutions channel for financing a volume of 140,000 to 150,000 starts, depends

on a number of factors. It depends on the extent to which our good friends the Chartered Banks go into the mortgage business; it depends on the point, as raised by Senator Crerar, as to how much money comes in from other countries to go into mortgage business in Canada. If it was left purely to our member companies there would not be enough money, and some money would have to come from other sources.

Senator ISNOR: The basic reason would be the prosperity of the country.

Mr. LEMMON: That is right.

Senator ISNOR: Or the reverse.

Mr. LEMMON: When the demand for money exceeds the supply then something has to give.

The Acting CHAIRMAN: But there is a continual return of payments.

Mr. LEMMON: Yes, Mr. Chairman. I have allowed for those. As I pointed out in the brief, we have invested all of those repayments in mortgages. We invested a substantial percentage of our income and assets in mortgages, but if it were left to our member companies without outside sources of mortgage funds, there would not be enough for 140,000 or 150,000 starts a year.

The Acting CHAIRMAN: To refer to what Senator Smith has said about Government financing, as I understand it from your companies, you believe, this will eventually make for stability of interest rates by placing these on a long-term basis.

Senator SMITH (*Queens-Shelburne*): I was not referring to this scheme that is now being started; rather, I was referring to deficit financing of all Governments in these times. What I mean is, they have to get new money, and the demand for new money is going to be pretty heavy, so I am given to understand.

Senator HAIG: The rate of interest will take care of that; people will take their money out of other investments and put it where the income return is best. These companies here do exactly that, no more and no less.

Senator SMITH (*Queens-Shelburne*): What you are saying is in your opinion the interest rates will rise?

Senator HAIG: I think, if you are right in what you say, the interest rates will rise; if we have a good crop and there is an increase in world trade, if the United States gets back on her feet, and Britain and Europe are able to get out of this war hysteria, then there will be money for business distribution and we will be in the market. We have not been able to sell our wheat, oats or barley; we have been tied up. Once the market is moving again, then money will come in as it did before. In the meantime, we have to decide to do, as Mr. Lemmon has quite properly said. We may have to take care of 140,000 housing starts next year and each year in order to keep people in that line of business employed. There is nothing as good for employment as house building; it takes care of more diversified industry than any other operation. It gives assistance to many different types of occupation. I speak with some knowledge, for I was in the building business for ten years. I know about it. We built a tremendous number of houses in Winnipeg and we had no trouble at the start in getting money. Any of the loan companies would lend us money, but towards 1930 when the world started to feel the pinch our sources of lending money started to diminish. Valuations were down and the amount of money available for lending on housing was reduced to a minimum, with the result that we had to put up more of our own money to finance operations. Finally, by 1929, my partner and I decided that we could not carry on this kind of building business any longer and we decided to quit. I think the same thing applies here. I am in favour of the present policy of definite financing to a certain degree, but I say that there may come a day when we

have to reverse our thinking. It may be beyond our means and I think that is the situation we face.

I wanted to ask Mr. Lemmon one question. You do not have to answer this question unless you want to, but in dealing with the National Housing Act does your Association feel that it is the same thing as dealing with outside companies? In other words, do you have your differences of opinion when you think they are wrong and you are right and perhaps later you find you were wrong and you act accordingly? Does the same thing apply to the Central Housing and Mortgage Corporation as applies to companies generally?

Mr. Lemmon: Pretty much, sir. I give them full credit. They are men who are trying to do a job, and I think they are trying earnestly to do a good job. Sometimes we do not see eye to eye on certain things, as you suggest, but we get along. Sometimes some of our confrères in other companies have their differences, but we manage. I think you stated it very well, sir.

Senator Haig: Thank you.

Senator Isnor: Yesterday our Banking and Commerce Committee gave consideration to bills to amend the Trust Companies Act and the Loan Companies Act. It came out during the evidence that an association of trust companies had made application to the Government, through the Superintendent of Insurance, for an increase in borrowing power from 10 to 12½ times paid up capital and reserves. Did your association ever consider making a request that the 60 per cent be increased?

Mr. Lemmon: Our association, as I pointed out in the brief, is made up of four different types of institutions. There are life insurance companies, trust companies, loan companies and a savings bank. Each of them operates under a separate act and each of them deals with its own act outside of our association. Our association does not make a presentation on their behalf in connection with, for instance, a revision of the Life Insurance Company Act. The life insurance companies act for themselves, and the trust companies act for themselves in respect to their legislation, and so on. It is on the record, sir, that at the last revision of the Insurance Act a suggestion was made to the Superintendent of Insurance that the 60 per cent ratio be raised to 66⅔ per cent for the purposes of life insurance companies. The Government did not see fit to grant that request.

Senator Isnor: Did the Government make any compromise at all?

Mr. Lemmon: None, sir.

Senator isnor: Then you did make application for an increase to 66⅔ per cent?

Mr. Lemmon: Yes.

Senator Isnor: I just wanted to get that on the record.

Senator Turgeon: How long ago was that?

Mr. Lemmon: I believe it was in 1950, when the last major revision of the Insurance Act was made.

The Acting Chairman: If that is all the questions, we thank you very much, Mr. Lemmon. You have presented a very fine brief.

We will now hear from Mr. E. J. Friesen, Vice-President of the Canadian Bankers' Association.

Mr. E. J. Friesen, General Manager of the Imperial Bank of Canada and Vice-President, The Canadian Bankers' Association:

Mr. Chairman, I would like, on behalf of The Canadian Bankers' Association, to express appreciation for the invitation to appear before this Committee. I trust that what we are able to contribute will be of some service in the

examination of matters affecting housing which the Senate of Canada has undertaken.

I am pleased to have with me Mr. S. A. Shepherd, Manager, Mortgage Department, Bank of Montreal, and Chairman of the Mortgage Loan Committee of the Canadian Bankers' Association, and also Mr. H. L. Robson, Assistant Secretary-Treasurer of The Canadian Bankers' Association.

Relations with C.M.H.C.:

Mr. Stewart Bates, President of C.M.H.C., made an excellent statement to this Committee early in June which must have provided a solid background for the later proceedings. Certainly it has rendered this presentation much simpler, in permitting omission of a large amount of detail which otherwise would have been necessary and which now would be mere duplication. This statement will not, as a consequence, be a lengthy one. It would be appropriate also to remark here that since the chartered banks entered the mortgage lending field in March, 1954, their relations with C.M.H.C. and its officers have been of the very best. The happy atmosphere which has existed, even through changes in personnel, can have facilitated in no small degree what may justifiably be regarded as a smooth and satisfactory performance by the chartered banks in a completely new sphere of operations for them.

Performance, 1954-1958:

At this point it would no doubt be helpful to give some details of what has been accomplished by the chartered banks in providing mortgage funds so essential to a large segment of Canada's housing programme. Since March 1954, the banks have made mortgage loan commitments of over $900 million, a very substantial sum. When Parliament passed the National Housing Act in 1954, the chartered banks expressed their intention to co-operate fully and they expedited their entry into the field just as rapidly as the greatly-detailed and complex arrangements could be made. The $900 million figure speaks for itself.

Breaking this participation in mortgage lending down into years and housing units, the following picture is presented of approvals by C.M.H.C. of applications received through the banks:—

Period	*Family Dwelling Units*
1954 (from end March)	16,909
1955	34,457
1956	15,896
1957	15,695
1958 (to 20th June—"undertakings" requested)	12,228

These figures cover use of the banks' own funds only and do not include the Government "Agency Loan" programme.

It is worthy of mention that these loan approvals have been made throughout Canada, in small places as well as large, thus accomplishing one of Parliament's main purposes in bringing the chartered banks within the scope of the National Housing Act as mortgage lenders.

Farm housing has been little financed under the National Housing Act, but it may be of interest to note that 18.5% of new housing in rural areas in 1956, the latest year for which information is available, was built with the assistance of the banks under the Farm Improvement Loans Act.

It may be asked why there was such a bulge in the figure for 1955. One reason for this, and there would be others, was the desire by the banks to establish quickly a portfolio of mortgage loans of some size in order to meet

the basic costs of operating a mortgage lending business—it is an accepted fact that such costs are likely to be disproportionate until a substantial volume of loans has been built up. It was, of course, not until 1955 that the mortgage lending operations could be expected to be in full and efficient swing in the banks as a whole, although the performance in 1954 was indicative of active response to the challenge. The decline in the years after 1955 can perhaps be regarded as settlement to a normal level, if one may use the term after only four years of experience. What the banks will be able to do normally over the course of years in their special position is difficult to forecast.

Mortgage Principal Repayments:

N.H.A. mortgages drawn for 25 years and payable in equal monthly instalments over the term have only a small part of the principal repaid during the first five years of the term. The percentage of the principal of a loan (paid in the manner stipulated in the mortgage) that is repaid each year of the first five, is as follows:—

During the first year	1.8%
During the second year	1.9%
During the third year	2.0%
During the period of the fourth and fifth years	4.5%

so that after five years only 10.2% of the principal loaned has been repaid. After ten years 24.8% will be repaid and 42.2% after fifteen years. It requires payments to be made regularly for between 16 and 17 years to obtain repayment of 50% of the capital loaned. As already stated, the above figures are on the basis of repayment in accordance with the mortgage.

This illustrates that it will be some years before sufficient capital will be repaid to the banks, annually, to provide an amount that can be re-loaned equalling the average annual N.H.A. loans made by the banks since entering the mortage lending field.

The banks are not in the position of the mortgage lenders who have been operating for many years and are now in the fortunate position of having a substantial flow of repaid capital coming in which is available for reinvestment in new loans—sufficient to maintain, if desired, a steady programme of new loan approvals from year to year without drawing on new funds.

Market for Mortgage Loans:

One aid to continued participation in new mortgage loan approvals is sales out of portfolio to other investors, or perhaps the making of new loan commitments specifically on behalf of other investors, which has the same result. To the end of 1957 the banks had recorded with C.M.H.C. the sale of mortgages totalling $89 million. This total has now possibly reached $100 million. Most of these sales have been made to corporate pension funds, and slow but steady progress is being made in developing that market, which is a most logical one. It is possible that this source of funds will grow as pension fund trustees become accustomed to mortgage loans as an investment medium.

Other methods of marketing have been under study but not yet has a plan been developed that does not present some serious difficulties. Large foreign investors, while interested in the interest rate, are deterred by the exchange risk and the reduction in actual yield resulting from the non-resident withholding tax of 15% of the interest.

Agency Loan Programme:

A few words should be said about the banks' participation in the "Agency Loan" programme. As the Committee knows, this was an arrangement whereby the approved lenders were called upon to assist C.M.H.C. in bolstering the

number of housing starts in a hurry by accepting and dealing with applications for N.H.A. insured mortgage loans in the same way as for their own N.H.A. loans, but using C.M.H.C. (Government) money instead. These were a variation on C.M.H.C. direct loans, as authorized by Section 40 of the Act. Mr. Stewart Bates mentioned this type of loan in his statement, but here it is merely wished to emphasize that by using the facilities of the approved lenders a volume job was completed in short order. The chartered banks co-operated fully and were of material and important assistance due to their coast to coast branch system.

Interest Rate:

A point of importance, affecting all lenders—and development of a secondary market—is the question of the maximum interest rate set under the Act. The present rate of 6% which is within the maximum permitted at time of fixing by the formula of $2\frac{1}{4}\%$ over the rate for long term Canada bonds, has been competitive with other interest rates and in 1958 has been drawing out a good volume of funds for N.H.A. mortgage loans. It is essential, if in a free investment market N.H.A. mortgages are to continue to compete successfully for funds, that the interest rate be maintained at a proper level. For example, secondary market investors such as the pension funds already mentioned, will not augment the supply of mortgage funds by purchasing N.H.A. mortgage loans if the yield is not competive with that for other investments. A lesson can be learned from the United States where, under the government-sponsored housing programmes, Federal Housing Administration and Veterans' Administration, efforts to hold the maximum permitted interest rates down resulted in a drying-up of funds, even when circumventions in the form of "discounts" from mortgage amounts, in some instances officially recognized and authorized, were applied to raise the effective rates to the lender. In other words, the job cannot be done by setting unrealistic returns for housing money. Fortunately, this fact appears to be well-recognized by the authorities in Canada.

Home Improvement Loans:

In the same field of adequate shelter is the problem of maintenance, improvement and expansion of existing housing. Part IV of the National Housing Act provides for what are known as Home Improvement Loans, made by lenders with Government guarantee (up to 5% of total loans made) for which a fee is paid by the borrower. The justification for the guarantee is that these loans are made for longer terms than under ordinary bank credit, as long as 10 years, and in some instances without security of any kind other than signature and endorsement of husband or wife. Home Improvement Loan provisions of the Act went into full effect in February 1955, when it was felt that the influence of the National Housing Act on the housing construction resources of the country no longer needed to be concentrated on new housing.

The banks have urged the public to make full use of the Home Improvement Loan facilities in the Act, and on several occasions when the authorities asked for special attention in that direction, particularly to encourage work opportunities during normally slack construction months in Winter, response was readily forthcoming in additional advertising. Home Improvement Loans have, in fact, been given a good idea of special advertising treatment. In addition, campaigns by manufacturers, contractors, and others, have received the co-

operation of the banks. The following statistics of performance may be of interest:—

Year	No. of Loans	Amount
1955	24,711	$27,227,000
1956	30,411	29,767,000
1957	29,998	30,168,000
1958 (to 30th June)	14,617	15,526,000
		$103,138,000

When one looks at some of the dwellings across Canada, there is obviously great scope for increase in this type of housing loan, which could contribute in no small way to the improvement of family accommodation.

Experience with Home Improvement Loans has been good. During the three years of existence, there has been a rather steady increase in the percentage of loans in arrears for 60 days or more to current exposures or loans running, but this was to be expected in the growing stages of the operation. At some point, assuming no real setback in general economic conditions, this percentage should become stabilized, with the risk to the Government under the guarantee increasingly protected by a growing fund in C.M.H.C.'s reserve for this purpose built up from the 1% fee. Claims paid by C.M.H.C. to lenders have so far been very small—at 30th June, 1958, only $74,000 out of total loans made amounting to $103,138,000, or $1 out of $1,394.

Home Improvement Loans, in which a previous programme was successfully operated for several years before World War II, appear to afford an excellent vehicle for absorption of slack or idle resources in the building and related suppliers' fields, particularly at times such as the Winter months when outside construction falls off, and are worthy of strong promotion by all concerned.

Future Participation and Co-operation:

In conclusion, it is probably unnecessary to offer the assurance that it is the intention of the chartered banks, fully conscious of their responsibilities, to continue to co-operate in the improvement and financing of Canada's housing, in every reasonable way and, of necessity, in accordance with conditions existing and the legitimate call of their other obligations.

Senator SMITH (*Queens-Shelburne*): Would you have any figures to add to the table shown on page 2? You give the number of family dwelling units. What would be the corresponding dollar value of the participation of the banks in this lending field?

Mr. FRIESEN: That figure includes not only the money actually lent but the moneys that have been committed, money promised to builders and individuals who are building houses. Naturally, the figures represented on our books lag considerably behind the amount committed for. The actual commitments were $900 million.

Senator SMITH (*Queens-Shelburne*): That is the total of all you have loaned since you have been in this field?

Mr. FRIESEN: That is right, for the last four years. The actual loans, because of the lag of the commitments, as of May 31, amounted to $631 million on the books of the banks. That is partly due to a natural delay in the use of the funds.

Senator ISNOR: I was very pleased to note that the brief emphasized the need, at least that is my interpretation of it, of the home improvement plan, and the figures as shown on pages 2 and 7 certainly bear that out. The table shows that in 1955 there were 34,457 loans. That was the largest year of those

shown. Was that not due to a very large extent to the extensive publicity and advertising carried on in that year? One bank in particular I remember emphasized the borrowing feature of the home improvement plan.

Mr. Friesen: I think perhaps the main reason is, as I have stated in the brief, was the desire we all had to increase this business. Our mortgage departments had been set up, we all had our costs absorbed, and we got into the thing with both feet.

Senator Isnor: It was only one year old then was it not?

Mr. Friesen: In 1954 we were more or less feeling our way, and in 1955 the departments were properly set up and there was a feeling we should get in there to build up our department and justify the expense of running that department. To build up a department you must have volume to keep such a department busy, to justify the overhead. That was one of the main reasons.

Senator Isnor: Well now, we will apply the same reasoning to another year. Instead of 1955 being your peak year for home improvements, the table shows on page 7 that 1957 was your peak year. That is two years later.

Mr. Friesen: The number of loans in 1956 numbered 30,411, and in 1957 the dollar amount was only $1 million more than that. Actually I do not think there is any significance. It was just a greater awareness by citizens to have their homes improved. I think to a large degree the Government, the banks and the builders and building material dealers perhaps made a greater effort in urging people to improve their homes.

Senator Isnor: That is why I suggest now that perhaps you could do a little more advertising.

Mr. Friesen: I think every bank has done it. Last fall and winter we did step up our advertising with two things in mind, the improvement of premises and more winter employment.

Senator Isnor: Do you find that there is a difference in the type of borrower under the National Housing Act and those who borrow for home improvements?

Mr. Friesen: Yes I would say that those who borrow for home improvements are people who have owned the same home for 20 or 30 years and realize that it does require a facelifting.

Senator Isnor: Which class do you favour as between the new home builder and those who want to remodel their old homes?

Mr. Friesen: I would say that we do not favour one against the other. Both are very beneficial, first to the individual concerned and also beneficial to the country.

Senator Isnor: You do not think that they represent a different type of person altogether?

Mr. Friesen: Very often in some of these newer subdivisions you will find that the average age of the borrower is quite low, that they are young people with young families, whereas in the home improvement field you will find the people borrowing are somewhat older.

Senator Isnor: And therefore better known to the banks?

Mr. Friesen: That may be so.

Senator Isnor: I was wondering if that was a factor in the increase of these home improvement loans?

Mr. Friesen: No, I would not say that. I would say that loans under the home improvement plan involve the personal equation to a greater extent than loans under the National Housing Act. Generally loans made under the

National Housing Act are made to builders in the first instance and then transferred to individuals.

Senator SMITH (*Queens-Shelburne*): On page 6 of your brief you mention that in some instances loans are made for home improvement without security of any kind. Do you do that to any great extent?

Mr. FRIESEN: The major portion by far I would say.

The ACTING CHAIRMAN: That would probably be due to the fact that the borrower is known to the bank and perhaps has been doing business with the bank for a number of years.

Mr. FRIESEN: Yes, for the most part they are people who have already established a credit rating or are known to the bank manager.

The ACTING CHAIRMAN: Whereas the young fellow looking for an N.H.A. loan is perhaps not so well known.

Mr. FRIESEN: Providing always that the plan of renovation is sensible, I would say that the turndowns are very, very minute indeed. I have no figures with me as to that. It is fair to say that the branch managers are willing to say yes more than no in matters of that kind.

Senator SMITH (*Queens-Shelburne*): One day when Mr. Bates was here testifying he stated that they might consider lending money for the construction of an unfinished house, that is to say a second bedroom will be left unfinished at the time the house is built, or perhaps the second storey will be entirely left unfinished. In a case like that what would be the policy of your association with regard to lending money under the home improvement loan legislation to a young man who started to build a house under that provision?

Mr. FRIESEN: You are speaking now of a house that has just been finished under N.H.A.?

Senator SMITH (*Queens-Shelburne*): I am speaking of a house that has been lived in for a few years. Do your banks have any policy that would deny him the opportunity to borrow additional money to improve his home by finishing the bedroom that was left unfinished at the time of its construction?

Mr. FRIESEN: I would say that that is something that would be considered in each individual case, and would depend on how he met his payments on the original N.H.A. contract and things like that.

Senator SMITH (*Queens-Shelburne*): But you do not have any policy that would deny him incurring a loan for that purpose, it is just a matter of risk as far as you are concerned?

Mr. FRIESEN: Yes.

Senator ISNOR: From what you said this morning in your brief I would judge it will be 1971 or 1972 before the loans are paid off?

Mr. FRIESEN: After 15 years, which would be fifteen after four years ago, and on the first mortgages it would be 1969.

Senator ISNOR: Taking 1955 as your big year?

Mr. FRIESEN: That is right.

Senator CRERAR: I note from your brief that in the four-year period, it is practically four years or a little bit more since this device by the banks was entered upon and in that interval you loaned about $900 million. My first question is, has that affected in any way your ability to make loans to ordinary commercial businesses?

Mr. FRIESEN: Perhaps I might borrow Mr. Lemmon's words and say you cannot use the money twice. If you use it in one place it must of necessity not be available in some other place.

Senator CRERAR: Quite true but, Mr. Friesen, that is dodging the question. Has it had any practical effect on your ability to make commercial loans, this utilization of your funds in this way?

Mr. FRIESEN: We like to feel we have met all the legitimate calls of commercial requirements. A young country such as this can always make use of all its funds. There is no question in that regard. I do not wish to appear to be dodging the question but I think that is a fair statement to make, that a young country such as this can always use its funds. We hope our funds will be usefully employed in some way or another, if not under the N.H.A. in some other manner. In the last few years certainly commercial concerns felt they were not getting all the money they could use but on the whole I think Canada is showing progress.

Senator CRERAR: You mention that you have been able to sell more than $100 million of these mortgages to investors, mainly to pension funds.

Mr. FRIESEN: They were the largest buyers.

Senator CRERAR: If interest rates should tend to rise wouldn't that avenue be closed to you somewhat?

Mr. FRIESEN: If interest rates tend to rise it might have a tendency towards that because obviously the attractiveness of mortgages to pension funds is in the higher yield in comparison with other investments available.

Senator CRERAR: What would happen is that you are tying funds up in long distance payments and if interest rates tend to rise then the existing mortgages would not be attractive to investors.

Mr. FRIESEN: They will be less attractive.

Senator CRERAR: So you would permanently over a period of years until these payments come in have your funds tied up in that way. Would that be a correct statement to make?

Mr. FRIESEN: Yes Mortgages are not a liquid asset as are some others.

Senator CRERAR: Would you care to pass an opinion on the question I asked the preceding witness about the likely trend of interest rates?

Mr. FRIESEN: I think perhaps I might just join in what Mr. Lemmon said, and besides any opinion that I might express would be my own.

Senator CRERAR: That would be good enough for me.

Mr. FRIESEN: No I do not think I would care to really give an opinion because I do not consider myself competent to do so.

Senator CRERAR: Then we will leave that.

Senator SMITH (*Queens-Shelburne*): Do you still stay with your formula of two and one quarter per cent over the rate for long term Canada bonds?

Mr. FRIESEN: That has been the yardstick right along.

Senator SMITH (*Queens-Shelburne*): And if bonds yield 4½ per cent your rate would have to go up accordingly?

Mr. FRIESEN: That would be a reasonable assumption.

Senator SMITH (*Queens-Shelburne*): And if you did not you would perhaps not be capable of maintaining your rate of lending for housing?

Mr. FRIESEN: That would be a reasonable assumption. Presently as you know the banks are confined to 6 per cent as a maximum rate of interest.

Senator CRERAR: I may say to the witness that when the Bank Act was amended permitting banks to engage in this mortgage lending for building houses that I had very grave doubts about the outcome. I think the banks exist essentially for the purpose of carrying short-term commercial loans. If our export business is good in lumber, and pulp and paper, naturally there

would be more demand for loans from the banks, and I would be very sorry to see the banks get into a position where because of long term loans they were handicapped in carrying on their business with regard to day to day commercial requirements. However, that is my own opinion, and it may not be worth very much. How have your relationships been with the Central Mortgage and Housing Corporation?

Mr. FRIESEN: Oh, very good.

Senator CRERAR: I am delighted to hear that. I have one other question: Of this $900 million in loans you have made in the last four years are repayments coming right in ?

Mr. FRIESEN: The experience has been very good indeed.

Senator CRERAR: In other words, you have no occasion for worry in that respect?

Mr. FRIESEN: No, there has been no worry at the present time; that is quite so.

Senator CRERAR: Personally I think that is rather a remarkable situation, because it discounts, in my judgment, at least, all the talk we have been hearing about a recession, which is not as serious as a lot of people try to make out.

The Acting CHAIRMAN: Senator White?

Senator WHITE: Mr. Friesen, taking the total amount of mortgage loans, are they fairly evenly distributed among all banks in proportion to capital, or are there certain banks that have a certain amount or a certain proportion?

Mr. FRIESEN: I cannot answer that without the figures before me. The figures of actual loans available, not commitments, are available from the monthly statements of the banks, but I must admit that I have not the figures with me and cannot comment on that. I doubt if they are all uniformly the same.

Senator SMITH (*Queens-Shelburne*): Can you tell us what percentage of the banks' loan business is tied up in housing; is it a large percentage of the lending business of the chartered banks in Canada?

Mr. FRIESEN: Yes. $631 million in mortgage loans at the end of May. Now the total loans of all the banks combined. Of course, the loans are in various categories, unfortunately. The current loans, that is, current commercial loans of the banks on May 31 were $4,807,000,000. There are of course call and day to day loans, but they fluctuate widely every day. But the current loans are $4,807,000,000; and the current loans outside Canada, $619 million, almost the same as the mortgage loans themselves. So that out of a total in Canada of loans of $5,407,000,000, $631 million were mortgage loans.

Senator SMITH: That is a small percentage, but it is a large amount of money.

Senator HAIG: What is the capital and reserves of your bank?

Mr. FRIESEN: Total assets, $913 million on May 31, and of that we had $36 million in mortgage loans.

Senator HAIG: I am asking you for the capital and reserves.

Mr. FRIESEN: I am giving you the total assets of the Imperial Bank, which are $913 million. Of that, $36 million is in mortgage loans.

Senator HAIG: I do not want that, I want to know how much your capital and reserves are in the Imperial Bank.

Mr. FRIESEN: Paid up capital, $11,200,000; rest account, $30 million; undivided profit $650,000. That adds up to almost $42 million.

Senator HAIG: $42 million. How much has the bank loaned to the end of the year 1957?

Mr. FRIESEN: I haven't that with me; but I have the total loans at May 31.

Senator HAIG: Give us that.

Mr. FRIESEN: You mean mortgage loans or all loans?

Senator HAIG: All the loans.

Mr. FRIESEN: Our commercial loans were $390 million; our mortgage loans $36 million, making a total of $426 million. Then of course we had the usual day to day loans, brokers loans $37 million and loans to municipalities as well as other assets.

Senator HAIG: And that money which you had loaned out was made up in part by people who had deposits in your bank?

Mr. FRIESEN: Yes, everything above our capital reserve, and so on, and we have a substantial amount of first quality investments.

Senator HAIG: Why should you lend long term mortgages of $42 million, or whatever it is you lend, and only have $36 million in capital? You cannot get that money back to cover my deposit in sixty years?

Mr. FRIESEN: We couldn't if we had all our money on long term investments. We have a fair amount of money available on a call basis, of course. As a matter of fact, if you wish to put it that way, we still have, taking out the capital reserves, and so on, assuming this was all invested in mortgage loans, sufficient cash assets to fully take care of deposits.

Senator HAIG: But even then you have not got enough to pay depositors back if you keep on lending on housing. I do not deposit my money with your bank for sixty years, that is a cinch.

Mr. FRIESEN: These are of course twenty-five year loans. However the record of the Canadian Banking System with respect to safety speaks for itself.

Senator WHITE: Would it be correct to say that at the time the amendment was made to the Bank Act for the first time in Canada as to loans on mortgage, there was no request or desire by banks to enter into the field?

Mr. FRIESEN: I think that was fully covered at the time of the revision. I know it was.

Senator WHITE: Was it not also a fact that the great difference between our system here and that in the States prior to the amendment being made, which put our banks in a much better position, was the fact that the banks are now permitted by law to lend on mortgages?

Mr. FRIESEN: We do know historically that the American banks did lend on mortgages and the Canadian banks didn't.

Senator HAIG: You did not close your doors, and they did.

Senator WHITE: On page 7 of your brief you speak about the small losses of only a fraction of one per cent. Does the Central Mortgage and Housing Corporation pay all the loss or does the bank suffer any loss?

Mr. FRIESEN: The bank suffers loss only if the amount guaranteed was exceeded.

Senator WHITE: And the banks have suffered no loss?

Mr. FRIESEN: That is right.

Senator HAIG: And all guaranteed loans, are they by the Government?

Mr. FRIESEN: That is right, to the extent of five per cent.

Senator WHITE: You mean five per cent of total loans?

Mr. FRIESEN: Total loans, that is right, sir.

Senator CRERAR: I have one other comment to make, Mr. Chairman. I think these gentlemen have presented two very excellent briefs.

The Acting CHAIRMAN: I agree.

Senator CRERAR: I think they will be of very real service to the committee when it comes to consider the report of the Central Mortgage and Housing Corporation.

The Acting CHAIRMAN: Are there any other questions to ask of Mr. Friesen?

Honourable senators, at the close of last week's meeting, Mr. S. A. Gitterman, of Central Mortgage and Housing Corporation, gave us a description of a household sewage disposal unit, and also a foamed plastic hut. That was not included in the record. He has since provided me with a summary of his remarks, and I suggest that it be printed as an appendix to today's proceedings.

Hon. SENATORS: Agreed.

(*See Appendix A.*)

Whereupon the committee adjourned until July 24, 1958.

APPENDIX "A"

DESCRIPTION OF HOW AN INDIVIDUAL HOUSEHOLD SEWAGE DISPOSAL UNIT MIGHT WORK

The best known individual sewage disposal unit is the septic tank and disposal tile bed. This method has been in use for over 100 years with little improvement and sometimes does not function well in congested areas.

In the septic tank the solids are reduced by settling out and digestion by bacteria called anerobes. The residue in the tank is called digested sludge. To purify this septic sludge requires the action of another bacteria called aerobes. These require large quantities of oxygen which is provided by allowing the sludge to flow through a tile bed set not too deeply in the soil so as to permit the penetration of oxygen. This action will purify the sludge quite well.

There is a unit available which uses these same principles but does much of the operation by mechanical means. The waste is flushed through a grinder which reduces the solids much as the septic tank does and the waste is then deposited into a tank containing water. Air is bubbled through this water continuously to provide oxygen for the aerobes which then purify the effluent. This process is called "activated sludge" and has been used for years in mass disposal sewage plants.

Such a unit is now available but it seems to have many limitations when used as a closed circuit re-using the same water again and again. Central Mortgage and Housing Corporation has financed a project to study this action and encourage improvements to make it operate satisfactorily.

This description of a possible individual household sewage disposal unit is based on the use of bacteria. There may be other methods and C.M.H.C. is trying to encourage additional work towards the elimination of mass sewage disposal pipes and plants.

One of the first things C.M.H.C. did when it was decided to study this problem was to have a literature search made. This search disclosed that very little research was or is being done on this subject.

The literature was checked carefully and letters were written to every major country in the world. It appears that the only country in which any work of this kind was done is the United States of America. Other countries appear to have discouraged such work because of high population densities and fear of pollution of the soils and waters. In the U.S.A., however, two units are now on the market. Both of these operate on the activated sludge or aerobic principle.

DESCRIPTION OF THE EXPERIMENTAL FOAMED PLASTIC HUT

In the attempt to find some revolutionary approach to new construction methods Central Mortgage and Housing Corporation together with the Division of Building Research encouraged the development of a foamed plastic hut. The floor, walls and roof of this consist of various types of foamed cores with different type skins. The floor also includes water pipes and electrical conduit built-in in such a way that the jointing of the panels automatically connects the pipes. The objective is to develop materials which will provide structural strength, insulation, water resistance, rigidity and appearance, and

the services, in one and which can be assembled on-site with a minimum of field labour.

A second hut is planned to be built of a material which may ultimately permit foaming in place.

If these are successful it is hoped to encourage further development along these lines.

If successfully developed such a method of construction would be particularly useful for northern construction. If the experiment is successful, it is possible to envisage two cans of liquid shipped to a site and then foamed in light weight molds up to 20 or 30 times its volume. Transport by air would be eased very much. Further, unskilled on-site labour could erect such houses easily.

1958

THE SENATE OF CANADA

PROCEEDINGS OF THE STANDING COMMITTEE ON FINANCE

on the Report of Central Mortgage and Housing Corporation for the fiscal year ending December 31, 1957.

No. 7

THURSDAY, JULY 24, 1958

The Honourable C. G. Hawkins, *Chairman*

WITNESSES

Dr. Andrew Stewart, President, National Conference of Canadian Universities.
Dr. W. T. R. Flemington, Vice President, National Conference of Canadian Universities.
Mr. G. S. Mooney, Executive Director, Canadian Federation of Mayors and Municipalities.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1958

Extract from the Minutes of the Proceedings of the Senate, Wednesday, June 11, 1958.

The Honourable Senator Aseltine moved, seconded by the Honourable Senator Quinn—

That the names of the Honourable Senators Brunt, Emerson and Thorvaldson be added to the list of Senators serving on the Standing Committee on Finance.

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

THE STANDING COMMITTEE ON FINANCE

The Honourable C. G. Hawkins, *Chairman*

The Honourable Senators

Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Burchill
Campbell
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Dupuis
Emerson
Euler
Farris
Fraser
Gershaw
Golding
*Haig
Hawkins
Hayden
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Pratt
Quinn
Reid
Roebuck
Robertson
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
White
Woodrow—44

(Quorum 9)

**ex officio member.*

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate

TUESDAY, May 20, 1958.

With leave of the Senate,

The Honourable Senator Aseltine moved, seconded by the Honourable Senator Pearson—

That the Report of Central Mortgage and Housing Corporation for the fiscal year ended the 31st of December, 1957, be referred to the Standing Committee on Finance for consideration and report.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, July 24, 1958.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.30 a.m.

Present: The Honourable Senators: Hawkins (*Chairman*); Barbour, Beaubien, Burchill, Campbell, Connolly (*Ottawa West*), Crerar, Dupuis, Gershaw, Horner, Isnor, Lambert, Molson, Robertson, Taylor (*Norfolk*), Thorvaldson, Turgeon and Woodrow—18.

In attendance: The Official Reporters of the Senate.

Consideration of the order of reference of May 20th, 1958, was resumed.

The following were heard and questioned by members of the Committee:—

Dr. Andrew Stewart, President, and Dr. W. T. R. Flemington, Vice President, National Conference of Canadian Universities.

Mr. G. S. Mooney, Executive Director, Canadian Federation of Mayors and Municipalities.

At 12.40 p.m. the Committee adjourned until Thursday next, July 31st instant, at 10.30 a.m.

Attest.

John A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, Thursday, July 24, 1958.

EVIDENCE

The Standing Committee on Finance, to which was referred the report of the Central Mortgage and Housing Corporation for the fiscal year ended 31st December, 1957, met this day at 10.30 a.m.

Senator Hawkins in the chair.

The CHAIRMAN: Will the meeting come to order, please? It is now 10.30, and we have a quorum.

Before commencing with the proceedings, there are a few remarks I would like to make in connection with the proceedings today and in the future. It is the intention of the Steering Committee to bring these public hearings to a close next Thursday, July 31, and then to proceed to report.

This morning we have with us Dr. A. Stewart, President of the National Conference of Canadian Universities, Dr. W. T. R. Flemington, Vice-President of the National Conference of Canadian Universities, and President of Mount Allison University, and Dr. T. H. Matthews, Executive-Secretary of the National Conference of Canadian Universities; also Mr. George Mooney, Executive Director of the Canadian Federation of Mayors and Municipalities. You will recall there was discussion some days ago about having a representative from the mayors and municipalities appear before us. Next Thursday, a week from today, we shall have Mr. Clements, Secretary-Manager of the Toronto Metropolitan Home Builders Association, and your Steering Committee thought it wise to have Mr. Bates, President of the Central Mortgage and Housing Corporation, to sort of wind up, and Mr. Bates has indicated that if any member of the committee has any special question to ask, he should communicate with either Mr. Joynes, or the secretary of the committee, prior to the meeting, and then Mr. Bates could give as full an answer as necessary.

Now, having said that, I think we will call upon the delegation from the National Conference of Canadian Universities, Dr. Stewart, Dr. Flemington and Dr. Matthews.

A. Stewart, President, National Conference of Canadian Universities, called.

Dr. STEWART: Mr. Chairman, honourable senators: May I say on behalf of my colleagues, Dr. Flemington, Dr. Matthews and all of the presidents of the Canadian universities, that we do appreciate this opportunity to appear before you and to say a few words on behalf of the youth of the provinces—of the country. The words of our brief are restrained, but I can assure you that behind them is the deep and genuine concern for the welfare of the young people of Canada, and of the universities as instruments of the welfare of the young people.

The National Conference of Canadian Universities, representing the universities of Canada, respectfully urges the Senate Standing Committee on Finance to recommend to the Government of Canada that the National Housing Act be amended so as to permit loans for the construction of university residences.

The Value of Residences: It is important for Canada that the young men and women who enter its universities should get the greatest benefit from their higher education. In the opinion of those most competent to judge, this means that the great majority of students who must leave home to go to college should live in university residences rather than in lodgings. The communal life of the college residence provides for a young man or woman a personal, social, and intellectual experience that is an important adjunct to the more purely academic training of the classroom and the laboratory.

This was emphasized in a series of papers presented to the annual meeting of the National Conference of Canadian Universities in June 1957. Monseigneur Irénée Lussier, Rector of the University of Montreal, for example, in his paper entitled 'Are University Residences Beneficial Academically?' said that the secretary of the Students' Association who lived at the University of Montreal residence expressed the unanimous satisfaction of the students in this residence, and Msgr. Lussier concluded, 'Taking into account even only the academic advantages, I am thinking of a new wing.' In a second paper on the same topic, Mr. T. H. B. Symons, Dean of Devonshire House, a men's residence at the University of Toronto, said that in England the six post-war universities had all made clear that their ambition from the outset was to be residential, and several of their Vice-Chancellors had emphasized that they regarded good residence as 'the most potent single factor in higher education.' Mr. Symons concluded his paper with the suggestion that a development of residences would be one form of expansion consistent with Newman's definition of a university as 'not a foundry, or a mint, or a treadmill, but an Alma Mater, knowing her children one by one'.

Studies of the examination results at the University of Alberta show that the results of students living in residence are consistently better than the results of those who live outside. The view that life in residence contributes significantly to educational achievement is universally held by those familiar with universities.

The Present Supply of University Residence Accommodation: The population of Canada in 1951 was 14,009,429. Of these, 5,084,013 lived in towns in which there was a recognized degree granting university. This would indicate that if the percentage of young men and women going to a university was constant throughout the country, the number who had to live away from home would be much greater than the number who could live with their families. Actually, the percentage going to a university is much higher among the young people of university towns.

At McGill University, in 1937-38, over 57% of the out-of-town students were able to live in university residences. In 1957-58, this percentage had dropped to 34%. Construction of new residences has lagged behind the growth in student numbers. This is true across the whole country. For example, in Alberta in 1937-38, about 25% of the total student body lived in residence; in 1957-58 the figure had dropped to about 17%.

Data for 23 universities indicate that only 15% of the total student body can at present be housed in university residences. These figures, set out in Appendix I, include over 70% of the 86,500 students in all the universities and colleges of Canada. It will be seen that some important universities have no residences: Memorial, Carleton, Sir George Williams. Some, like Dalhousie, New Brunswick, Laval, and Saskatchewan can house only a small proportion of their out-of-town students.

Even where more plentiful accommodation is available, it is common to read in the university calendar, 'Rooms are reserved for freshmen and a selected number of senior students.' In the three University of Alberta residences, which accommodate 450 students, 90 beds are reserved for senior students. All

other accommodation is reserved for first-year students whose homes are outside Edmonton. Accommodation in the women's residence is completely reserved by February for admission in September.

It is our opinion that the universities should, on the average, provide residential accommodation for at least 25% of their students. This is probably close to the proportion in residence in the pre-war years, after a prolonged period of depression and little construction.

The Coming Flood of Students: In 1955, Sheffield prepared a projection of enrolment which showed the possibility of 128,900 students in 1964-65. In 1957, Dube, Howes and McQueen made another calculation for the Gordon Royal Commission on Economic Prospects yielding the figure 133,200 for the same year, and one of 267,000 for 1979-80. Enrolment in 1957 exceeded the Sheffield figure for that year by 11.9%.[3] It looks therefore as if the higher figure of 133,200 for 1964-65 is likely to be no overestimate.

Even if the universities do no more than maintain the present capacity in relation to enrolment, i.e. 15%, an additional 7,000 units will be required by 1964. Assuming that enrolment will reach at least 133,200 in 1964-65, six years from now, and that 25% should be provided with adequate residence on the campus, then the present capacity of residences must be increased by 20,000, i.e. from the present 13,000 to 33,000.

It should be noted that universities and colleges in small centres, e.g. Acadia in Wolfville, St. Francis Xavier in Antigosh, Mount Allison in Sackville, and Bishop's in Lennoxville cannot take their share of the additional students who are undoubtedly coming unless they have additional residential accommodation.

Present Rates for Room and Board: Residence rates for room and board vary, with the normal around $60-$65 per month or $450-$490 per session of about 7½ months. These rates may be sufficient to cover operating costs, including normal upkeep, but they do not provide for recovery or repayment of capital costs.

The rates cover room and board. At the University of Alberta where the rates have been $60-$65 per month, some operating loss was incurred in 1957-58. The university credits $45 to the dining room and $20 to the provision of accommodation.

There is general agreement that universities should not subside their residences from general funds. To do this is to ask students living at home or those living in lodgings to help pay for their fellow students who are in residence. On the other hand, where a university has special funds restricted by deeds of gift or otherwise to the building or maintenance of student residences, such funds may properly be used to make these residences as effective and economical as possible. Special endowments are rare, and the general policy is to make the residences pay their way, i.e. to see that running them causes no drain upon general funds. If a residence meets current expenses, the repayment of capital charges is usually not considered.

The Cost of New Residences: The present rates quoted above do not include capital charges. In considering the cost of new residences we may assume that they must be operated on a self-liquidating basis, i.e. that the rates charged to students for accommodation must be sufficient to pay interest on borrowed funds required to meet construction costs and to amortize the principal over a period of years.

The reason for making this assumption is that the need for instructional buildings is so great as to absorb all the funds available as grants or gifts to universities. Consequently, as a general rule, universities will not be able to construct residences with funds from these sources, and will have to borrow for residence construction if residences are to be built. The universities will expect to service their loans for residences out of rates charged to students living in residence. To the extent that residences may be built partly or wholly from grants or gifts, the situation will be eased.

The annual amount per student required to retire a loan depends on four factors: (1) the amount of the loan, which is dependent on construction costs per student; (2) the rate of interest; (3) the amortization period; and (4) the months of occupancy.

1. Construction Costs per Student:

There is some evidence that students do better in single rooms. However, construction costs per student are substantially reduced by providing for two students per room. All residences should, however, contain some single rooms.

The revenue from meals should cover the capital as well as the operating costs of the dining room. All residences, however, should include in addition some non-revenue-producing areas such as Common Rooms, recreation areas, study facilities, warden's quarters, all of which add to the construction costs per student.

Construction costs per student also depend on the nature of the construction, i.e. design and cost of materials used.

Estimates of construction costs per student vary considerably, and reflect different values attached to the factors referred to above. Nine months ago the Honourable Senator from Banff received reports from a number of universities regarding their plans for building student residences. Four of them indicated the probable capacity and costs of these residences. Capacity totalled 1,830 for which costs were estimated at $11,545,000, or an average of $6,305 for the housing of each student. However, estimates varied from $5,000 to $10,000 per student.

2. Rates of Interest and Amortization Period:

The relations of the rate of interest and the period of amortization to annual costs is obvious.

3. Occupancy:

Students normally occupy their rooms for about 7½ months each year. However, universities which operate summer schools, usually for about six weeks, can extend the occupancy to some 9 months; and if they open their residences for conferences or institutes, additional revenue can be obtained.

Considering these several factors, it may be assumed that the universities can expect 100% occupancy for the equivalent of 9 months each year.

In Appendix II we have set out the monthly amount required to amortize the cost of construction of residences, at various costs of construction per student, at various rates of interest, assuming 9 months' occupancy, over 20, 30, and 40 years.

How much can the universities expect to charge students per month? Present rates which do not cover capital costs are about $60 per month for room and board. The maximum which could be added to this charge is $20 per month, giving a total monthly rate for room and board of $80. Assuming a rate of interest of 4¼% with amortization over 40 years, the cost of construction per student could not exceed about $3,500 per student. If the rate of interest were 3% (again over 40 years) the initial cost might be about $4,000.

The conclusion drawn from a study made at the University of British Columbia was that, at a cost of $4,000 per student, the annual net revenues would carry (a) close to two-thirds of the annual cost on interest and amortization at an interest rate of 3% and (b) about one-half the annual cost of interest and amortization at an interest rate of 4¾%. (This is referred to in, Appendix III).

It is clear that the operation of student residences on a self-liquidating basis will require either quite low rates of interest, or quite low construction costs per student, or some contribution by way of grant or gift.

Conclusions:

We submit

(1) That university residences are important to sound education at the university level;

(2) That at least 25% of students should be accommodated in residences;

(3) That funds available as grants and gifts will not be sufficient to meet the needs for instructional buildings, and consequently if residences are to be built, funds on loan must be available;

(4) That the universities will have to recover the cost of loans out of revenue from students in residence;

(5) That there is a limit to the additional charge which can be loaded on students;

(6) That this limit means either (a) low cost construction, (b) low rates of interest, (c) long-period amortization, (d) some subsidy from grants or gifts, or (e) all of these.

The conference on "Canada's Crisis in Higher Education" held by the National Conference of Canadian Universities in Ottawa, November 14-16, 1956, 'resolved that Central Mortgage and Housing Corporation legislation and regulations should be amended to allow the Corporation to loan money to the universities on the most favourable possible terms to permit them to construct residences for students and housing for married students and staff on a self-liquidating basis.'[5] The subject was discussed again at the June 1957 meeting of the National Conference of Canadian Universities, and a similar resolution was adopted.[6]

Subsequently there was an exchange of letters between the Executive Secretary of the Conference and the Minister of Public Works which indicated that what would be required is amendment of Section 16 of the National Housing Act. The Minister stated in his letter of June 6, 1958 that 'The whole question of housing at colleges and universities is currently being studied and is one aspect of the housing problem that will be examined very carefully when possible amendments to the National Housing Act are being considered. (Copies of this correspondence are attached as Appendix IV).

It is our confident belief that residences for university students are important, not only to the students and the universities, but to Canada at large, and that the nation would be helping itself to solve the urgent problems of its rapid growth if it made the building of student residences less difficult financially for the Canadian universities.

Consequently, we recommend that the Senate Standing Committee on Finance recommend to the Government of Canada that the National Housing Act be amended so as to permit loans for the construction of university residences.

Submitted on behalf of the National
Conference of Canadian Universities
by
Andrew Stewart, President
W. T. R. Flemington, Vice-President
T. H. Matthews, Executive Secretary

(*For References and Appendices I, II, III, IV and V see end of today's proceedings.*)

The CHAIRMAN: Thank you, Dr. Stewart.

Senator ISNOR: I wonder if Dr. Stewart would tell us what university he is associated with.

Dr. STEWART: I am the President of the University of Alberta, and President of the National Conference of Canadian Universities this year.

Dr. W. T. R. Flemington is President of Mount Allison University, and President-elect of the National Conference. Dr. T. H. Matthews is the Executive Secretary of the National Conference.

The CHAIRMAN: Thank you. There will be an opoprtunity now for honourable senators to ask questions.

Senator CRERAR: I would like to ask the witness if his proposal would mean that Central Mortgage and Housing Corporation would advance the total cost of the dormitory buildings, for under the principle followed in the past C.M.H.C. has not paid the total cost of putting up such apartment blocks but it has sometimes put up a substantial part of the cost.

Dr. STEWART: Our view is that the answer to this would depend upon the rates of interest and the length of the amortization period. If we are thinking of 4 per cent as an interest rate over a 30-year period, then it would not be possible for the universities to finance the full amount of the construction of residences on these terms. We cannot load the cost of that on the students. We would have to have other funds as well to put into construction.

Senator CRERAR: I was merely exploring the matter. It would be rather difficult for the universities to find the funds unless they got them from provincial sources.

Dr. STEWART: I think I can express our view in this way, that this would be a help in that the funds that we can divert to residences out of grants and loans will be quite inadequate in relation to the need. Now, if we can supplement these funds by loans at low rates of interest I think we can proceed with some residences.

Senator CRERAR: And do you think it can be handled if Central Mortgage and Housing Corporation put up 80 per cent?

Dr. STEWART: That would be a substantial help.

Senator CRERAR: Would it be possible to carry the project through?

Dr. STEWART: Not without some other funds, unless you push down your construction cost to a very temporary type of building.

Senator CRERAR: Of course, that is wholly inadvisable. I expect the universities will be here for 50 or 100 years—I hope for 150 years or longer, and it is important to get your opinions as to as substantial type of ouilding as possible which will endure.

Dr. STEWART: Yes.

Senator CONNOLLY (*Ottawa West*): Have you any yardstick as to what the amortization period and what the interest rate might be, given conditions today?

Dr. STEWART: I hesitate to answer that, but we have used the rate of 4½ per cent for thirty years on the assumption that perhaps that is realistic.

Senator CONNOLLY: That might be realistic. On that basis from the point of view of Central Mortgage and Housing Corporation, do you think any university that undertook a project would be able to liquidate its loan in that period from ordinary revenue?

Dr. STEWART: I would say it should be put on that basis. Now, if that is so, I think we have to have some other non-interest bearing money in the project to make it possible for us to build the type of residence that we would like, to keep the cost at about a reasonable level.

Senator CONNOLLY: I would suppose, too, that the Conference would expect that each application would be dealt with on its own merits. It is not a blanket application, not a blanket type of proposal that you are making, it is simply an amendment to Section 16 which would permit loans for these purposes in proper cases?

Dr. **Stewart**: That is wholly correct.

Senator **Connolly**: One other thing: I would like to suggest, Mr. Chairman, in view of the fact that the president of Central Mortgage and Housing will be here at our next meeting, that perhaps the secretary could send this brief to him so that he could express some views on it next time.

The **Chairman**: That will be done.

Senator **Isnor**: On page 3 of your brief, Dr. Stewart, you say:

> "This is true across the whole country. For example, in Alberta in 1937-38, about 25 per cent of the total student body lived in residence: in 1957-58 the figure had dropped to about 17 per cent."

I suppose that is due largely to the increased enrolment as compared to 1937?

Dr. **Stewart**: Yes. We have not built any residences since 1937, and the decrease is due to the increasing numbers.

Senator **Burchill**: Dr. Stewart, I am connected with the University of New Brunswick, and I am prepared to say that I agree with what you say in the brief. In your opening you mentioned that the language of the brief was "restrained"—a good word. Our experience at the University of New Brunswick has been that the residence has been a direct liability as far as finance is concerned. We have supplemented the revenue by grants from the general fund every year. We charge the students as much as we possibly can, but we are still in the red by quite substantial amounts each year. Now, we are building residences there, but we are doing it by public subscription in part, and the other half comes from the Canada Council, in order to enable us to put up these residences. Now, if that method was adopted, how would it conflict with your plan here? If Canada Council came into the picture, would Central Mortgage and Housing Corporation be interested?

Dr. **Stewart**: I cannot speak for Central Mortgage and Housing Corporation, but obviously from our point of view if a combination of Canada Council and public funds can meet our needs then we can operate more satisfactorily on that basis, but we do not see these two sources in combination across the country as being adequate in themselves, and so we think some loan funds must be available. It is quite true that circumstances differ in different parts of the country, and as I have indicated, our request is merely for permissive legislation. I do not know what particular universities would avail themselves of it; some would not, some almost certainly would, and this would depend on the particular circumstances of the other sources of funds that were available.

Senator **Lambert**: Dr. Stewart, in your brief to this committee, you recommend with respect to Central Mortgage and Housing Corporation that some action should be taken to meet your request. Senator Burchill has just mentioned the Canada Council. I had that in mind when you were referring to this matter. It is proposed that $50 million be devoted to the capital development of universities, and I think that the proper procedure would be that the Council of Arts and Sciences, which has the administration of this fund, would possibly be expected to be asked for their approval or otherwise of any undertaking of that kind. I just bring that up as a point to ask further if any approach had been made to the Council of Arts and Sciences on this subject. I am under the impression that that approach has been made.

Dr. **Stewart**: Yes, we have made representations as an organization. There was, I understand, some uncertainty in the minds of the Council as to whether (a) it could, and (b) it should, advance capital funds for residences as such. We now understand that a decision has been made that it legally can and that it wishes to make these loans. I have referred in my brief to a project in British Columbia, and Dr. Mackenzie is on the Council, as you know. In that case their study indicated that depending on the rate of interest they could load either a half or two-thirds of the capital cost on the student. Now, they

have received assistance from the Council, so that in fact the Council is taking care of half of the cost. Now, this makes it feasible in British Columbia under these conditions to go ahead.

Senator LAMBERT: Therefore, your suggestion would be modified or qualified to this extent: The Council of Arts and Sciences are already undertaking to do something. I think your recommendation to this committee would be that the approach to Central Mortgage and Housing Corporation should be modified to that extent, at any rate—the Council of Arts and Sciences have already got the matter in their hands.

SENATOR WALL: Subject to correction, would it not be fair to say that the $50 million that is in the hands of the Council, part of which may go to residences as Dr. Stewart has indicated, would come nowhere near meeting the need for residences. I think Dr. Matthews might verify this. By a very modest plan the universities have listed their intentions to construct residences amounting to about $50 million, which is a very conservative figure—it is $5 million a year for ten years. So that if Canada Council is to meet half of that need for residences it would have to spend $25 million for residences alone, which I doubt could happen. Would Dr. Stewart care to comment on that?

Senator LAMBERT: May I state that the point you raised is not the point I have in mind at all. Whatever the comments are is another matter. The point I want to make, Mr. Chairman, is that this committee makes a report to the Senate and in that report if it saw fit, it might include the recommendation you suggest, but it would depend entirely then upon the concurrence of the Senate in the recommendation contained in the report whether that could be done or not. It seems to me that to get the action that you are urging you are using this committee, sir, and using it perfectly legitimately, to set forth the facts of the situation, to inform all and sundry including this committee what the university building situation is. Now, as to what action you get after that either on the part of the Council of Arts and Sciences or the Central Mortgage and Housing Corporation would be, in my opinion, beyond the control or direction of this committee.

Senator MOLSON: Mr. Chairman, could I ask Dr. Stewart if it would be true to say that the provision of residences would be made more feasible, perhaps made possible if a university could raise say $100 under its own power and thus be in a position to ask the Canada Council for $100 to match that, and that would give it the capital sum of $200. Having that much capital it might then be in the position, if a mortgage loan were made to it at advantageous terms, to build college residences. Do you think that might be possible?

Dr. STEWART: That is the best statement of our position that could possibly be made. That is exactly what we want to say to you.

Senator MOLSON: In other words the possibility of grants from the Canada Council would be there, but those grants would be complementary to anything else that is either suggested in this brief or on the part of the universities themselves.

Dr. STEWART: That is right. We know the position of the Canada Council and we are making this submission in full knowledge of what they are able to do, and we are simply saying this is another element in the problem which would help us quite considerably.

Senator CAMPBELL: What is the policy of the province of Alberta in respect to university grants?

Dr. STEWART: I also represent the University of Alberta. I am told we are in a rather favourable position. I am not in a position to speak for our less favoured colleagues. The University of Alberta has done very well

in terms of public funds. We are this year starting with an immediate appropriation of $4 million on a building program which will extend over a period of three years at a total cost of $15.5 million. These are instructional buildings and are being fully financed by the province. So that in our position, at least as far as instructional buildings are concerned, we have no problem at the moment. But every time we have approached the Government with a residence in our estimates it has always said, and perhaps properly, What is your priority—instructional buildings or a residence? Well, that is not a fair question at all because if you have no place to instruct students there is no use in having a residence for them, so we have to say, We need instructional buildings, we need the chemical laboratory, we need an addition to the physics lab and so forth, and in this way residences are left out of the estimates every year.

Senator CAMPBELL: As far as the University of Alberta is concerned you still have the door open for some financial assistance from the province for residences provided you can obtain additional money by way of loans?

Dr. STEWART: Yes. Looking at the situation we decided that perhaps the only way to get ahead immediately with residences was to borrow, and we have spent some time working with one of the large construction companies to see if it was possible for it to build us a low cost residence project on a self liquidating basis, and we were making considerable progress until three weeks ago when they came east and on their return told us that the rate of interest to be paid makes the whole thing impossible. On account of that we had to drop it. But, if we could get a bit of money by grant or gift or otherwise and then be in a position to borrow the rest at reasonable rates of interest we could make it work.

Senator MOLSON: Did the study of these plans that were made give you any idea of what perhaps the lowest cost per student might be initially?

Dr. STEWART: I would say that these are absolutely the lowest estimates, and I hate to quote them but they are $2,000 per student. Actually that is about rock bottom.

Senator CAMPBELL: What type of construction would that be?

Dr. STEWART: That is frame and stucco construction.

Senator CRERAR: Dr. Stewart, one occasionally sees criticism that the universities, generally speaking, are striving for size rather than for quality and that in order to get large numbers of students, and perhaps not for that reason alone but for other reasons, standards have tended downwards. Now quite obviously that would have a bearing on this problem. Mr. Chairman, I would like Dr. Stewart to comment on that. I may mention that on one occasion in Winnipeg in a public address I brashly offered the criticism that I thought there was too much of a tendency in our universities to become glorified technical schools, and that the real purpose of education was being allowed to slip backwards somewhat. I may say, doctor, that I still harbour those views to some degree. I would like your comment.

Dr. STEWART: I think the general view on this is that we have quoted the best estimates we can get of the number of students who will be admitted to universities over the years ahead. These estimates by Sheffield and other people are based on the assumption that admission conditions to universities remain as they are now, that it is not going to be made more difficult or less difficult to enter university. In other words, you are assuming the same conditions of admission but that the numbers of students will increase, and that is something that the universities have no control over at all. Now, maybe Queen's can say, We do not want any more students, but I cannot

and 90 per cent of the universities in Canada will have to take the number of young people who come forward with our standards of admission and we will have to take them in.

Senator CRERAR: If you raised your standards would you weed some of them out?

Dr. STEWART: Yes. But this is a problem. I think the answer to that is that in terms of the needs of this country for young people with university education this would be a fatal national policy to adopt. This is my own view.

Senator CRERAR: Tell me this: I see criticism occasionally that students who matriculate to universities that after they get into university it is discovered that they are deficient even in such things as spelling. Would you say of your own knowledge if there is anything to that criticism?

Dr. STEWART: We have some students who cannot spell, Senator Crerar.

Senator CRERAR: Well, if they cannot spell are they deficient in other respects? Perhaps, Mr. Chairman, I am not explaining my point very clearly. I think the natural desire of most parents is to secure a university education for their youngsters. There has been a definite decrease in home discipline, and a lot of these youngsters go on and look upon a university career as something in the nature of a lark, rather than the serious business of developing their own powers. My personal view is that it is highly desirable if that tendency exists—and I believe it does exist—that it should be kept in check. I know of no other way of doing it than by having the universities set higher standards and refuse to waste their time on students who are not serious in their purpose in coming to the university.

The CHAIRMAN: Who is going to be the judge?

Senator CRERAR: The universities have to be the judge of the standards. One of the difficulties is the modern ideas of education that have developed over the past 50 years—and can be traced to a certain influence, I think, in the United States,—which are detrimental to the true purpose of education.

Dr. STEWART: This is a very large issue, which I do not think I can deal with adequately. However, two points occur to me: first, in the west we have three Royal Commissions now sitting, one in British Columbia, one in Alberta and one in Manitoba, all engaged in the study of this problem at least from the schools' point of view. All I can say is that the students do not stay at the University of Alberta for a lark. We fail about 30 per cent in the first year. That is a disgrace, and should not be so, but they do not stay around university and waste their time.

Senator CRERAR: What about that 30 per cent, do they come back the next year?

Dr. STEWART: Not very many of them.

Senator CRERAR: They are weeded out in the first year?

Dr. STEWART: Yes.

Senator CRERAR: My point is, would it not be better to weed them out before they enter the university door?

The CHAIRMAN: I am afraid, gentlemen, time is going on and we are directing our consideration to the subject before us. Senator Turgeon, you have a question? I think we should confine our questioning to matters having to do with the brief before us. We have another witness to hear, and we want to give him as much time as possible.

Senator TURGEON: Mr. Chairman, my question has to do directly with the subject, and in particular with the suggestion made by Senator Lambert, with which I agree. It is true, the brief asks that the National Housing Act be amended to allow this additional expenditure. It is therefore true that only

the Government or one of its ministers can make such a resolution to Parliament. But I do believe it would be wise at least to consider that a report of some nature be made by this committee to the Canada Council. I do not say we should make it, but we should consider it, if we agree, as I hope we will, with the submission now before us.

My suggestion is that in addition to the recommendations to be contained in our report to the Senate that the Government should bring about this change in the National Housing Act, we should also suggest that the committee discuss the matter with the Canada Council in order to bring to their attention the proposal made to us this morning, which I think is an excellent one, and which we should do everything we can to help.

Senator BURCHILL: Mr. Chairman, I want to clarify an answer given by Dr. Stewart. Did I understand you to say, sir, that the annual grant, or the operating grant, from the province of Alberta was $4 million?

Dr. STEWART: No, that is our capital building construction. This year our operating grant is a little over $3 million.

Senator BURCHILL: That would make a total of around $7 million?

Dr. STEWART: A total of $7½ million this year from the province.

Senator LAMBERT: That is entirely a provincial grant?

Dr. STEWART: Yes.

Senator ROBERTSON: Dr. Stewart, following the question of Senator Molson, what you are proposing is that the National Housing Act be amended to make it possible for the Central Mortgage and Housing Corporation to lend money for this purpose. I take it, the equity capital, if you like, of 20 per cent would be secured from this source or that; so that it would boil down to the idea of your getting a loan of whatever amount is agreed upon over a long term. Are the rates of interest you suggest lower than the rates of interest presently charged on loans made by C.M.H.C.?

Dr. STEWART: I can't give you a definitive answer to that, because I am not sure what they are doing, but my understanding is that 4¼ per cent is about the level.

Senator ROBERTSON: If it is a lower rate than that at which C.M.H.C. finances its mortgages, then it has to be a subsidized rate of interest—somebody must pay it. Are you suggesting that C.M.H.C. deviate from its ordinary policy, and lend money to universities at a lower rate of interest?

Dr. STEWART: I would personally not recommend that, but we do understand that in the United States these funds are available at 3 per cent. Of course, I admit it is different in the States.

Senator ROBERTSON: That may be done by some special grant. But it would seem to me that the simpler method of handling loans for the construction of university residences would be to concentrate on the term, rather than on the interest rate. It seems to me that to interfere with the interest rate would result in all sorts of complications. It would mean that Central Mortgage and Housing Corporation would be lending money to A at one rate, and to B at another rate, and it would result in hopeless confusion. In other words, the nature of the university residences, and the university itself, being a long-term proposition, you would do better by concentrating on the longer term rather than on the subsidized interest rate from C.M.H.C. To vary the interest rate would mean certain changes in legislation; and of course, you must remember that interest is a very important consideration. The rates are changing very materially; indeed, I have no doubt they have changed since the time this document was prepared.

Dr. STEWART: Sir, I have not had a chance to consult all my colleagues on this, and I do not know what their individual views would be, but my view would coincide with yours.

Senator CRERAR: Dr. Stewart, you mentioned a moment ago, if I understood you aright, that the failures in the first year in university were 30 per cent—that is in Alberta?

Dr. STEWART: Yes.

Senator CRERAR: Would you say that is a fair representation of universities across Canada?

Dr. STEWART: From my knowledge that is about the level, yes.

Senator CRERAR: How many students have you in the first year in the University of Alberta?

Dr. STEWART: About 1,500.

Senator CRERAR: So that roughly about 450 students fail?

Dr. STEWART: Yes.

Senator CRERAR: And the great majority of them do not come back?

Dr. STEWART: Perhaps that is an over-statement. I cannot give you an off-hand and clear answer as to how many come back.

Senator CRERAR: There may be 200 come back?

Dr. STEWART: About that, yes.

Senator CRERAR: Then would not the problem as presented to us be, if I understand your suggestions in the brief, that we should provide dormitories for, say, 200 students who continue through their university course.

The CHAIRMAN: You don't expect an answer to that, do you? Senator Wall?

Senator WALL: I wonder if I might take a moment to go back to the point in the brief where you point to the tremendous need for residences. I have looked through my notes, and I find that Dr. Matthews had contacted all the universities and had inquired as to the amount of capital expenditure on residences they anticipated to make in the next five years. There are figures for 27 universities and colleges, and as to the amount they were likely to spend we were given the figure of $50 million, which is $10 million a year. Then I went to the brief and on page 4 you say: "Assuming that enrolment will reach at least 133,200 in 1964-65, six years from now, and that 25 per cent should be provided with adequate residence on the campus, then the present capacity of residence must be increased by 20,000 . . ." If you need accommodation for 20,000 students, and if this can be provided at $2,000 per student, which is a very low figure, that would be $40 million anyway for six years. If the figure for a residence is $4,000 a year, which I notice the University of Manitoba is quoting, that would be $80 million. So that the sum total of the need as we look at it is anywhere from $40 million to $80 million in the next five or six years, as a minimum. That would be a fair statement. Even that does not seem to give all the needs because the figure for the University of Manitoba is $1 million, but I have later figures from the affiliated colleges which add another $2 million for the next five years. So that the sum total is probably very extensive, and the need is great. Maybe this suggestion in the brief that something might be done through a change in the National Housing Act regulations is a good one. Perhaps this is a necessary step. What I am trying to get at is that we should this morning get a field of the sum total of the need, not only in the terms of students but in the terms of money. How much money is it going to involve at a minimum?

Dr. STEWART: The best answer I can give is that I believe it will involve around $5,000 or $6,000 at least per additional student for the instructional

buildings. That does not include residences. The cost of residences has to be put on top of that, and if you can estimate the expanding number of students and apply these two factors, then you get what the total cost will be. It will run into substantial millions of dollars.

Senator CAMPBELL: I would like Dr. Stewart to say whether or not funds are available from any other sources by way of loans for university purposes? My understanding is that it is practically impossible to borrow money for construction of this kind, university residences or buildings.

Dr. STEWART: I know of no other source.

Senator CAMPBELL: So that if you are to achieve your objective, then it will be essential to make some changes in the legislation to enable some public body to make these loans. The normal way would be either through the provinces or C.M.H.C. It seems to me that the machinery is completely set up for this purpose through Central Mortgage, providing there is an amendment made to authorize them to make these loans. Since this procedure has been followed in the United States, it is one that certainly deserves the most serious consideration of the Parliament of this country.

Senator WALL: Has there been any experience in the last 10 or 15 years where any university was able to raise, say, 20 per cent or 40 per cent of the capital cost of a university residence and then was able to go to some financial institution and borrow the remainder? Has there been any experience where they were able to use commercial financial institutions for that purpose?

Dr. STEWART: I do not know of any, and I gather my colleagues here do not know of any either.

Dr. FLEMINGTON: May I say a word in connection with what Senator Wall said a few minutes ago about having a complete picture before us. We three represent the N.C.C.U. in an official sense, really. Dr. Matthews is the Executive Secretary of the National Conference but, on the other hand, Dr. Stewart and I represent in a sense different phases not only of the country but of its universities as well.

Dr. Stewart comes to you this morning as the President of N.C.C.U., and the pale colour on his face is indicative of the fact that he has not had a chance to do any fishing this past week. On the other hand, I come to you after a week's fishing in Ontario. Senator Burchill might wonder why a Maritimer would come up here to fish, and I must say that what I caught does not compare with Miramichi salmon but I did have a delightful time, as you can see from the tan on my face. Dr. Stewart represents, you might say, the western part of Canada which has its university in each province. I come from an older part of the country where universities very largely grew up before the provinces entered the picture. We have 16 degree-conferring institutions in the Atlantic provinces and a great many of them are church foundations. The Anglicans, the Roman Catholics, and the United Church all have foundations there. In that sense we are not, you see, receiving any money from the provincial Governments. When I say that I am speaking of the Atlantic provinces as a whole.

Senator ISNOR: Except special grants.

Dr. FLEMINGTON: Yes, except special grants. New Brunswick has become rather enlightened in that respect in that it is giving an annual grant to all universities irrespective of foundations, whether church or not. I think Nova Scotia this year for the first time is following that plan and is giving a quarter of a million dollars to the universities regardless of whether they are denominational or not. As a matter of fact, we have no provincial universities in the Maritimes, with the exception of the University of New Brunswick. The rest of us are private and church foundations. The fact has been stated here again and again that it would be a nice thing to have residences. Down in the

Atlantic provinces not only is it a nice thing but it is compulsory. We cannot increase our numbers at the present time without residences. The University of New Brunswick is building residences at the present time with the help of the provincial Government, but what about the church institutions which are just as important and have not got that same source of revenue? An inquiry was made as to whether we could borrow money from other sources if we could get a certain amount of our own money raised. We are putting up residences for an additional 300 students at the present time, and I may say that Mount Allison has 80 per cent of her 1,100 students in residence right now. The town is also packed, as there are only 3,000 inhabitants and the 300 students themselves pack the town. We cannot expand, although the economy of the Atlantic provinces is improving. We cannot expand and provide the Maritimes with university students and, may I say, with all humility, the rest of Canada as well, as we have been doing for the last century—without these residences.

Senator Wall asked if it was possible to get money from other sources. We started this spring to build a residence on the basis of 300 additional students. One thing that gave us the impetus was that Captain Bennett, an old retired sea captain, and a brother of the former Prime Minister of this country, gave us $100,000 this spring to put up a residence. He said "I am giving you this for two reasons. One is that you need this residence space, and the other is that with the Conservative regime we cannot afford to have any unemployment down in this part of our country, and we are giving you the money on the understanding that you start building at once."

Well, $100,000 is not too much with which to put up a residence for 300 students. Dr. Stewart has referred to a remarkably low figure. We are putting up a residence for less than $300,000. It is running from $2,800 to $2,900 per student but we cannot afford to do anything else. And so we are starting in with those residences with the $100,000 that has been given to us, and equal grants from the Canada Council. Now, that Canada Council grant, honourable senators, I would like you to note, is very limited; it is only $50 million altogether. We need $80 million for residences, but that $50 million covers the fine arts, the humanities, social sciences, all of those things, and only a fraction would ever go to residences. So it is exceedingly important that we have something like that Central Mortgage committee to fall back on to give us the additional money we need at a low rate of interest, because it is not right for us to raise our board and lodging to the necessary figure; we have to be able to finance those things ourselves. It is true that every university can borrow a limited amount from the banks, but the interest rates are high. I want to give you that side of the picture as far as our part of the country is concerned.

The CHAIRMAN: Gentlemen, we have another witness, and in fairness to him I will have to call him. I would like to say to you, Dr. Stewart, Dr. Flemington, and Dr. Matthews, how much we appreciate the efforts you have put forward this morning, and how grateful we are to you for coming and giving us the opportunity of hearing you.

We shall now hear from Mr. Mooney, Executive-Director of the Canadian Federation of Mayors and Municipalities.

George S. Mooney, Executive-Director, Canadian Federation of Mayors and Municipalities, called.

Mr. MOONEY: Mr. Chairman, honourable senators: My name is George Mooney, and I am the Executive-Director of the Canadian Federation of Mayors and Municipalities, in whose name and on whose behalf I am appearing this morning.

The Canadian Federation of Mayors and Municipalities is a national organization set up by the municipal governments of Canada to provide the means of inter-municipal cooperation between and among the municipalities of all provinces. It convenes an annual National Municipal Conference, carries on intensive research programs into all phases of municipal government and other matters of municipal interest, and acts as the spokesman of municipal governments with respect to municipal matters of inter-provincial and national concern.

Its membership comprises the direct affiliation of over 300 municipal governments, primarily the larger cities and towns, and of all provincial-municipal unions and associations of municipalities. The embracing nature of its direct and indirect affiliation of municipal governments, large and small, urban and rural, permits the Federation to speak with some measure of authority on behalf of the municipal governments of the country. It is a non-profit organization and is financed entirely by the membership fees of its affiliate municipal governments and provincial unions and associations.

The municipal governments have a lively and vital interest in the matters now under consideration by the Senate Standing Committee on Finance with respect to the report of the Central Mortgage and Housing Corporation for 1957. This fact has been testified to in the evidence given by the witnesses which the Committee has heard at the several meetings preceeding today's Session, the record of which we have read with great interest, and with most of which the Federation is in substantial agreement.

The municipal governments are deeply mindful and aware of the great contribution the Federal Government has made in facilitating and encouraging and making possible a vast housing program aimed at improving the housing and living conditions of the people of Canada. Since 1935, when the National Housing Act was first enacted, and in the subsequent years, particularly the years since the end of the war, during which its provisions have been progressively liberalized, it has come to play a key role in the national housing program throughout the country. Under its provisions more homes have been built than otherwise would have been possible and a new standard of housing has been ushered in, which, unquestionably, has raised the quality of housing throughout the country. But although we have made great strides in coming to grips with our housing problem, the goal of decent minimum standard housing for all Canadians has by no means been reached. While we have added a large volume of new and improved housing stock, there are still important gaps in the housing program. The biggest gap is in the low-cost and low-rental field. And we still have slums.

It has been suggested to the Committee by some witnesses that one of the bottlenecks which the housing industry is up against in its endeavour to build more houses, and, particularly, low-cost houses, is the attitude of municipal governments with respect to their local building and zoning by-laws, the installation of municipal services, particularly watermains and trunk sewers (the so-called "big pipes") and other related matters.

The points of view that have been expressed are understandable and well taken; although it would be wrong to say that municipal governments themselves are, in fact, the culprits who have created the roadblocks. The actual fact is that, with the best will in the world, municipal governments, large or small, urban or suburban or rural, have found themselves caught up in a situation, not of their doing, which prevents them from being anything else but a bottleneck with respect to most of the matters complained of.

Before dealing with these matters it would perhaps be useful if there was on the record some background data aimed at throwing some light on the reasons why municipal governments have become, in a sense, to the extent

complained of, the unwitting bottleneck in slowing down and retarding—and making more expensive—an orderly and progressive- and less costly-housing program. The general facts are well known and have been settled in other places; but in appraising a situation such as is now under study by the Committee the central and background facts are sometimes lost sight of. It is worth repeating them even in summary form.

Members of the Committee are generally aware of the vulnerable nature of the municipal finance structure . In periods of deflation, property values drop and municipal values thereby decline. In periods of inflation, property values rise but there is strong and compelling resistance against any corresponding increase in the tax rates on property. This, despite the fact that municipal governments like everyone else are subject to the spiralling prices and wage levels of an inflationary period.

Moreover, and unlike the flexible, varied and multiple sources of revenue available to other governments, the property tax, which is the main source of municipal revenue, does not respond to economic influences as quickly or in the same magnitude as do other forms of tax which are geared to productivity of business or income. On the face of it, it is anomalous that municipal governments who administer areas wherein the greater part of the taxable wealth of the country is concentrated are unable to tax this wealth except in a very limited and restricted degree. If a municipality had access to the total taxable wealth of its incorporated and administrative area there would be no municipal finance problem; nor could the matters complained of be laid at the door of municipal governments, for they would not exist. The fact of the matter is, however, that the revenue sources available to municipal governments are both restricted, limited, tenuous and vulnerable.

As a consequence, municipal governments have been operating within a financial straightjacket wherein there is room neither to meet the backlog of unmet accumulated need for local capital works and improvements, nor to keep pace with the current needs, let alone make provision for the many requirements which continuing and accelerated urban growth and expansion are forcing upon them.

Ever since the end of the last war, and increasingly with every passing year, the pressures for urgent and costly programs of local improvements and modern community facilities have continued to mount. The factors which have created the pressures for immediate and large-scale municipal improvements derive from the following:

1. Growth in urban population and the consequent unprecedented demands for new schools, new roads, new hospitals, new water and sewerage systems and other essential municipal facilities.
2. Spread of urban blight and obsolescence particularly in our older and larger cities and which has a depreciating effect on property use and property values with consequent serious revenue decline to municipal governments.
3. Flight to the suburbs which has added vast new capital municipal needs to an already large backlog born of depression and war.
4. Technological advances which have outmoded much of the standard municipal plant and facilities of an earlier period.
5. Increasing prosperity which has brought with it the demand that we use our economic abundance to generate higher levels of human and community wellbeing.

Over and above these considerations, there is another factor, the significance of which cannot be dismissed. We are living in a period where the progressive achievements of our Canadian democracy are being challenged by other economic and political ideologies. It is in our cities and towns that the ideological crisis of our times is most evident. They have become the symbols

of our democratic civilization. The homes men live in, the schools their children attend, the socal institutions and cultural facilities which are available, the means of transportation and the amenities of living—including running water and sewage disposal—are the physical standards by which men judge the measure of a good society.

The attainment of these requirements is rightly the primary responsibility of each community and its autonomous local government. It is to them that we must turn to as a national community as we seek to maintain and upgrade our educational standards, improve our physical and mental health, clear our slums, build better homes and safer highways, renew and redesign obsolescent urban areas and provide the water systems, sewers, roads, parks, schools and the like in the newer suburban communities throughout the nation.

While the municipal governments must continue their independent and self-governing responsibility for local growth and development; and while the provincial governments must continue to exercise their constitutional powers and prerogatives with respect to municipal institutions; it is clear that the revenue resources of municipal governments, even when coupled with the supplementary financial aid which the provinces can make available to them, are insufficient to support the heavy financial costs entailed if our cities and towns are to keep pace with the pyramiding requirements of exploring urban growth and the consequent urgent need for major programs of housing, urban redevelopment and renewal. And that applies to the matter of watermains and trunk sewers.

In this connection, the Committee is probably already aware of the very comprehensive study which Central Mortgage and Housing Corporation made in 1956 of the sewerage services in urban communities throughout Canada as existed at that time. The three hundred municipalities surveyed embraced the places where nineteen out of twenty urban Canadians now live. The facts revealed by the survey were startling. Of the total surveyed population, 2,652,000 or 32% of the total, were living in municipalities with a low frequency of connection. The population in largely unsewered municipalities in the provinces of Ontario and British Columbia was 1,941,000, or 24% of the total surveyed. It was also revealed by the survey that many of the new dwellings constructed in the years 1951 to 1955 were located in largely unsewered municipalities. For example, of the 327,000 new dwellings in metropolitan areas 40% were located in municipalities of this type. These municipalities include many large suburbs built in recent years. To quote the report itself . . . the survey did not reveal any precise idea of the extent to which recently constructed dwellings are unsewered, but "it did indicate that under pressure of the housing boom the situation has been deteriorating."

The question raised by these facts, and to which earlier witnesses have already referred, is why and how does it happen that municipal governments have not been able to cope with the demonstrable need for constructing watermains and trunk sewers. The answer is not difficult to find. It is within the following framework of circumstances:

1. Watermains and trunk sewers are only one of the many community needs which municipal governments have been under pressure to provide.
2. Municipal governments are severely restricted in their ability to finance the capital costs of local improvements and public works. They are restricted both by the extent to which local taxpayers can carry the capital and interest burdens involved and the extent to which the investment market is willing to buy their bonds.

Two current examples will serve to illustrate the problem: Within a stone's throw of the City of Montreal are two fast growing suburban communities. One is larger than the other.

Community "A" is now endeavouring to float a bond issue amounting to several millions of dollars for the construction of trunk sewers, street paving and sidewalks. A reputable informant told me just yesterday that investment bond dealers feel the issue cannot be sold (a) because of the marginal state of the debt carrying capacity of the community, and (b) because the Department of Municipal Affairs would probably frown on the issue in any case because of the added burden it would have on the already top-heavy funded debt of the municipality.

Community "B" is a community that grew out of the sticks. It began with no laid watermains or sewers of any description. It is now a fairly large and fast growing municipality. At the present there is a community waterwell, but no water piping. The water is distributed by means of a large water wagon. As it comes down the street, a boy rings a bell and householders come out and purchase their water requirements by the pail. The community is unable to float a bond issue that would be acceptable to the investment market, so they worked out a deal with a contractor to finance the needed watermain and sewer construction and have turned over to him as collateral, or as a guarantee of payment, the entire equity which the municipality has in its already paid for public works improvements and capital plant.

This is municipal financing with a vengeance!

Another current example related to the problem of sewers is that in one of the oldest communities in Canada. The original sewerage system is now literally falling to pieces. It will have to be replaced. Moreover it does not embrace the entire area of the now built up and expanding community. To replace the old sewer system and extend it to cover the entire built up area will cost in excess of $2 million dollars. The funded debt of the municipality is less than $2 million dollars. The dilemma that the community is confronted with is obvious. The present answer is that the old system must continue to suffice and the new areas must go without sewer connections.

The municipal governments have been fighting the past in their endeavour to deal with the present insofar as their finance problems are concerned. There is the deadweight of the accumulated and under-discharged debt load of an earlier period. There is the obsolescence of much of their capital plant. They are also fighting inertia and a not inconsiderable measure of indifference in some quarters where their plight should be more readily understood, appreciated and acted upon.

It is for these reasons that they have been seeking and urging a Dominion-Provincial-Municipal Conference for the sole and express purpose of considering ways and means whereby the municipal governments of Canada can be placed in a position to more adequately discharge the responsibilities which devolve upon them. The anticipated informal meeting which is to be held in the fall of this year between the Federal Government and representatives of the Federation and to which reference has already been made by previous witnesses, is a move in this direction. It has been made clear that it will be unofficial and informal and will decide nothing. But it will be exploratory and should pave the way for subsequent meetings between all three levels of government when the municipal problem in its entirety can be frankly faced up to and ways and means hammered out to deal with it . . . and in such manner that municipal governments in all provinces will thereby be put in a position to get on with the backlog of jobs that they frankly have been unable to deal with and, at the same time, provide the means whereby they can more adequately plan their future requirements already fast rushing upon them.

Hitherto, the Government of Canada has recognized, in principle and in degree, that the national revenue and financial facilities available to the Dominion Government should be brought to bear on some segments of the urban growth problem. Numerous shared cost programs have been entered

into with the provincial governments, which, directly and indirectly, have facilitated municipal action with respect to matters now under consideration by the Senate Committee. The National Housing Act has been a boon to municipal governments, although they have not yet learned to make the fullest use of it. Particularly is this so with respect to the provisions for financial assistance for slum clearance, land assembly and urban renewal projects.

Without the National Housing Act it is doubtful whether any municipality could have carried out limited slum clearance projects. It is equally doubtful, even with such measures, whether any municipality, large or small, could hope to undertake a concerted and comprehensive program of urban renewal and development of the magnitude now required in our larger cities and towns. And it is no less doubtful whether municipal governments will be able to finance the heavy costs involved in providing water and sewer connections to new housing areas, particularly in suburban growth communities, unless some sort of facilitating financial aid is made available. They are unable to do so for several reasons, the most important of which is that their tax and finance structure conceived to meet the needs of an earlier time is now inadequate for these times.

This is the crux of the municipal problem and there is no easy or simple way to solve it.

Members of the Senate Committee may be asking themselves, why should the Federal Government concern itself with urban watermains and sewers? And, if it did, will it not have the questionable effect of creating further speculation in land value by producing "windfall" gains to landowners?

It may be a trite answer, but the fact of the matter is that the provision of watermains and trunk sewers, the "big pipes", has become the key to our housing problem from now on; and, particularly, low-cost housing. It is as much an urgent national problem as the constructing of highways in the Yukon. It certainly affects many more people as well as the continued well-being of the already developed and economically important urban growth areas of the nation. It is as much a national problem as is the need for new hospital construction to which the Federal Government has already made substantial contributions. It is the immediate and urgent bottleneck in the national housing program and until it is resolved, it will continue to frustrate the basic aims of the National Housing Act.

So far as the speculative potentials that may arise consequent upon extending water and sewer facilities to new housing areas is concerned, the answer, again, may be trite, but the fact is that it has been the very lack of such facilities that, to a very considerable extent, has already created speculation in urban land values. Being mindful of the possibility, however, it seems reasonable to expect that safeguarding measures could be instituted whereby the speculative possibilities could be reduced to their minimum and which, indirectly, could recoup for public purposes a goodly portion of the unearned income which otherwise would accrue to the landowner. Tax experts are not without ingenuity in such matters. Certainly, appropriate measures have long been needed to curb the completely unwarranted, if not vicious, land speculation which has characterized urban real estate since the end of the war.

Municipal governments would concur with most of the views put forward to the Committee by previous witnesses. It would be redundant, therefore, to elaborate at any great length on the well-informed and expert testimony which the Committee has already had from these authorities. There are one or two observations, however, which perhaps should be made.

Previous witnesses have referred to the rigidities and other problems they have come up against in connection with local building and zoning by-laws. The complaints were not spelled out in detail. Therefore it is difficult to know just what the difficulties were. But, in general, it can be said that

the building codes in most Canadian municipalities today are either modelled on the National Building Code, or are, in fact, precisely the National Building Code. I cannot imagine that municipal governments would want to lower the standards which, after many years of very careful evaluation by competent engineers, architects and construction people, have been incorporated in the National Building Code. It would be a backward step were they to do so. There may be some local rigidities that have crept in, but, by and large, municipal building standards across the country have been raised to a much higher standard than hitherto and municipal governments would view with concern any suggestion that they should be seriously modified.

So far as zoning ordinances are concerned, here, again, municipal governments have been endeavouring, in the interest of the total community, to hold the line with respect to the improved zoning standards that they have been able to achieve. Poor zoning, or the lack of it in the past, has led to great abuse in land usage and it will take a long time to correct some of the bad usage which is now on the land. On balance, municipal governments are reasonable and where it can be demonstrated that, in fact, a local zoning ordinance is prejudicial to some desirable housing development, modifications can be arrived at.

Municipal governments share the views expressed by earlier witnesses with respect to the need for producing low-cost housing that will be within the ability of low-income families to afford. But they would be opposed to achieving a low-cost house at the price of lowering the minimum standards which have been built up. It is not true that a house built today is built merely for this generation. The fact is that it will serve well beyond this generation. We must be mindful, therefore, both with respect to the site location of low-cost housing, its design and its component building materials, that it will be so conceived and constructed that in fact when it is completed it will be something more than merely the incipient beginning of a future slum.

We have covered a lot of the waterfront without examining in too great detail the municipal position with respect to the continuing housing problem. Suffice it to say that the municipal governments have a very great interest in the problem, particularly with respect to low-cost and low-rental housing where the greatest gap in the national housing program has been. In large cities particularly there is need for low-cost and low-rental housing. The migratory nature of employment in large cities creates a problem. The fact that a man is employed in one area of the city one day and next week is employed miles away on the other side of the city adds to the problem. The fact that you have a heavy concentration of low-income workers in large cities aggravates the problem.

For those and other reasons the municipal governments would like to see low-rental housing and they would like, moreover, to be getting on with the job of slum clearance and urban renewal. The desire is there, the means to do it are not.

Back in February a delegation from the Federation met with Prime Minister Diefenbaker. Among the things discussed was the whole matter of housing. A submission was left with the Prime Minister and we can do no better today than to quote from that section of it dealing with the matters now under consideration by the Senate Committee.

In brief, the Federation memorandum called upon the Federal Government to extend its participation in low-rental housing and urban renewal projects under the National Housing Act by substantially increasing its share of the cost of clearing blighted sub-standard areas. It moreover asked that the municipality's share of such costs be advanced to the municipalities to be repayable by them over a period of years. Finally, it asked that the cost of

financing main sewers and watermains in new neighbourhood developments be financed by the Federal Government within the framework of the de-development provisions of the National Housing Act.

There will be some questions that members of the committee will want to ask me and, for which, I am at your complete disposal.

The CHAIRMAN: On behalf of the committee and on my own behalf, Mr. Mooney, I would like to thank you very much for your presentation at this time. The meeting is open to questions.

Senator LAMBERT: I was very pleased to see the emphasis you made upon the importance of municipal expansion as to sewage facilities. As you know very well we have in the federal district and in the municipality of the city of Ottawa a problem which has been given first priority by a joint Parliamentary Committee dealing with this question. Just in that connection I would like to ask you if I am not right in assuming that the province of Ontario, through its water resources legislation and its present commission, in which Dr. Berry has been very prominent, provides very liberal and generous financial assistance to any municipality within Ontario which wishes to establish a sounder method of sewage disposal and water supply than has existed in the past? I believe they have a plan, a 30-year amortization financing scheme, which is available to any municipality in the province. I understand too that this legislation is meeting with general support in this province.

I am emphasizing this because I think municipalities do not catalogue as strictly as they should and turn to real estate activities in suburban areas at the expense of something that is basic and fundamental, and I am inclined to think that a good deal of this housing may become a surplus commodity on the market.

Mr. MOONEY: I am not at all sure, Senator Lambert, that the policy of the Ontario Water Resources Board is as extensive as you suggested it is in so far as making low-interest money available for financing the cost of sewers for all municipalities in this province. Whether it could be extended to the cities of Ottawa, Hamilton, Toronto or Windsor, for instance, I am not sure. Certainly it has not been so extended as of the moment.

My impression is that the intention of the legislation is aimed at these municipalities who require these services but who because of their financial limitation are not able to finance the cost themselves. In practice the Board is probably assisting marginal municipalities who otherwise would be unable to proceed with such undertakings. The municipal governments are learning rapidly, Senator Lambert, the wisdom of planning their capital works programs and giving them priority. The capital works budget has become an important feature in the financial planning of most large cities, and there is an increasing practice to give priority to these projects. We have some interesting examples where this is not in effect but despite those examples it is fair to say that in general the policy of financed works planning is being pursued.

I do not share entirely the view, Senator Lambert, that new housing development in suburban communities—the housing stock that has been constructed—is threatening to become a glut on the market or that there has been an over-expansion or overdevelopment. However, there could be and we must be mindful of that possibility.

Senator LAMBERT: I think we have had evidence before this committee already that there is such a surplus.

Mr. MOONEY: It is possible there is a demonstrable surplus in some areas but this would not characterize, in my view, as I know this country, the overall situation at the moment.

The CHAIRMAN: And it would be at certain price levels too.

Mr. MOONEY: Oh, very definitely, Mr. Chairman. There is a slowing down in the effective demand for housing over and above $15,000, $16,000, $17,000. There has been a bit of levelling off at this price range in a number of areas across the country, but the demand for a house from $12,000 to $15,000 and lower is consistently high.

Senator MOLSON: In your brief, Mr. Mooney, you deal at length with big pipes. It is one of the problems that we have had put before this committee very forcibly. If in addition to this problem we include the problem of sewage disposal and water pollution, I take it that this would be so far beyond the capacity of most of our municipalities that it isn't being dealt with as a present problem in this brief.

Mr. MOONEY: It is not dealt with in this brief because in a sense it is one step removed from the immediate matters under consideration by the committee. But it is a problem all across the country, Senator Molson. Some municipalities have entered into construction projects on sewage disposal undertakings, and the matter certainly is a lively subject in many areas, particularly areas that border on lakes and rivers where there is an added pollution factor consequent upon the fact there is no adequate sewage treatment of the water, and the sewage goes into the rivers and lakes.

Senator MOLSON: Isn't it true that around Montreal, where all bodies of water are polluted, one town takes the water that has been polluted by another town farther up the river, then purifies it and uses it and then the water goes back into the river in a polluted condition and the next town has to go through the same procedure?

Mr. MOONEY: Well, it would appear that that would be the end result of the recent sewage treatment plants construction in some municipalities on Lake St. Louis, in fact they will merely be purifying the polluted water they received and turning the purified water back into the river to be polluted again as it moves down the stream.

Senator LAMBERT: That is the process that takes place all the way from Ottawa to Montreal.

Mr. MOONEY: This is a great national problem, and there is growing concern with respect to the matter.

Senator LAMBERT: There is the Pollution League in Montreal. I wondered if it was making any headway there.

Mr. MOONEY: Well, it continues to decry the problem.

Senator ISNOR: I was going to make the same comment and ask questions about the subject raised by Senator Molson. I had a note here, concerning page 16, but it has been answered, so I have nothing further to say, except that I would ask Mr. Mooney if he would be good enough to tell us the date when this was prepared.

Mr. MOONEY: Yesterday, sir.

Senator CAMPBELL: I was wondering if the witness was directing his brief first, to the trunk sewer problem or the water main and sewer within the subdivision?

Mr. MOONEY: No. When I used the word "water main" and "trunk sewer", I was not referring to the lead on water pipes or sewers or to the so-called laterals that feed into a residence; that is the responsibility of the owner of the building, and normally forms part of the mortgage and as such becomes an integrated part of the ongoing amortization of the house.

Senator CAMPBELL: You are speaking mainly of the trunk sewers?

Mr. MOONEY: Yes.

Senator CAMPBELL: What specifically do you suggest that the federal Government should do? Do you suggest it should make loans available to the municipalities and finance its undertakings, or enter into the construction industry?

Mr. MOONEY: I would suggest that federal participation could be one of two ways. One, a direct, outright grant for the construction costs of water mains and trunk sewers, or to make available a loan at a moderate rate of interest to cover the cost, and when I use the word "moderate", I means better than moderate.

Senator CAMPBELL: Well, this has been the type of discussion with past governments, has it not?

Mr. MOONEY: We have been discussing this matter of moderate interest rates for municipal capital fund borrowings for a number of years, and we have suggested in the memorandum we left with the Prime Minister back in February that there be established a federal-municipal loan fund that would make available to the municipal governments a capital fund at a low interest rate over an extended period of amortization. If such a fund was available it might well be that it would be the source that the municipalities would borrow from to construct these undertakings.

Senator HORNER: What rate of interest would you suggest, 2 per cent?

Mr. MOONEY: Yes, I think that is a fair idea of what I mean by moderate.

Senator LAMBERT: I suppose you are aware, Mr. Mooney, of the Municipal Grants Act, which is a federal disposition, payable to the municipalities to cover all costs relating to federal property located in any municipality?

Mr. MOONEY: Yes, I am very familiar with the Municipal Assistance Act, Senator Lambert, As you now know, while it is still on the statute, it is moribund. It really never fulfilled the purpose it was set up to achieve. There were very limited loans made under the act. The total fund was to be $30 million. The amount of money which any municipality could borrow under the fund was related to that $30 million based on the per capita relationship of the borrowing municipality to the total population of Canada. In effect it would have meant, as far as Montreal was concerned, that Montreal could have borrowed about $250,000. Well, you can just see how far $250,000 worth of borrowing would assist the financing of the capital needs of Montreal. Multiply that across the country and it means that the thing was innocuous—ineffective.

Senator LAMBERT: If I might say so, you are referring to something different from what I asked about.

Mr. MOONEY: I am sorry, sir.

Senator LAMBERT: The Municipal Grants Act is based on the servicing of the properties that the federal Government owns in different municipalities, and the fund, that was distributed over 100 municipalities, amounted last year, I think, to somewhere around $8 million or $9 million, but that was to take care of the assessment and taxes and the services of water, and so on, relating to the Government institutions. But in view of your recommendation, I was just thinking that if the federal Government or the federal authorities take on more responsibility for municipal affairs, that act is there, which could be amended, of course, to meet something of your needs.

Mr. MOONEY: Hardly, Senator Lambert, for this reason: The Municipal Grants Act, to which you referred, and about which I misunderstood you, is an act providing for ex gratia payments in lieu of taxes on federal crown departmental property located in municipalities. Now, there would be very little if anything in the way of federal crown property in some of the newer suburban localities where it is needed, so it would not provide the need.

Senator LAMBERT: It is limited?

Mr. MOONEY: Yes.

Senator CRERAR: I have a few questions I should like to ask the witness. In the brief presented to the Prime Minister and his colleagues, which you quote at the end of your memorandum, it would mean substantial contributions by the federal Government for the purposes you have mentioned there, such as the cost of clearing blighted areas, the cost of financing main sewers and water mains, and new neighbourhood developments. Have you made any estimate of what amount of money would be required for that?

Mr. MOONEY: It would be a vast amount of money.

Senator CRERAR: Would you agree that if the federal Government did this for one city like Montreal it would be under an obligation to do it as a matter of policy right across the country?

Mr. MOONEY: Oh, yes.

Senator CRERAR: But you do not know what money would be required?

Mr. MOONEY: It would be of the range of many millions of dollars annually, Senator Crerar. If we are to get on with the job of slum clearance, if we are to get on with the job of urban renewal and re-development and make our cities functional for the times in which we live, to refurbish them as they need to be refurbished, to clear out the obsolescence, to make them fill the purpose which modern urban living requires, then there is a vast amount of municipal improvement re-development cost that has to be faced up to. The capacity of the municipal Governments of this country to undertake such a program will be limited of course by the amount of manpower available, the amount of materials available, and the amount of money available annually for such undertakings. But the program, before it would be finished, would be a program that would extend over a period of 25, 30, 40 years, and maybe longer. But the municipal Governments as of the moment are not in a position to initiate or undertake this task of urban renewal because they are unable to finance the costs involved.

Now, the idea is already provided for in the National Housing Act. The section on urban renewal and redevelopment has provided facilities whereby the federal Government will participate to the extent of 50 per cent with the municipality in the purchase and clearance of the land—the federal government will pay 50 cents on the dollar. Section 36 of the National Housing Act provides that you can use some of that land as you would want to do, and as a matter of fact legislatively are required to do, for a certain amount of public low rental housing, and the federal Government provides 75 cents on the dollar for capital cost purposes for such undertakings.

What we have said to the Prime Minister is that the 50-50 participation envisaged under the urban renewal sections is not in itself sufficient to enable the municipalities to venture in any large way into such costly undertakings.

Senator CRERAR: Mr. Chairman, I have listened with very much interest to Mr. Mooney's presentation. But may I say, Mr. Mooney, that your proposal vis-à-vis the federal Government is a two-pronged one—you are asking the federal Government first to make available a loan at low interest rates to municipalities of money for these developments and also to give outright grants. Now, the federal Government is finding it necessary in its financial program to issue long-term bonds at a rate of 4½ per cent. You would want the money substantially cheaper than that, I suspect.

Then again, the requirements that you mentioned a moment ago would run into very considerable sums of money and the federal Government had a deficit this year of $650 million or thereabouts, and the Canadian Tax Foundation of Toronto, which is a very responsible body, predict from their studies that these deficits will continue for a number of years.

Would you agree that it is desirable to put the country further in debt to carry through these undertakings?

Mr. MOONEY: Not necessarily, but it may require, Senator Crerar, that as a national community we re-examine where we are now spending money, and perhaps we have come to the point as a nation when the total public revenues available to all levels of Government, and the present services and activities of all levels of Government should be re-examined with a view to asking ourselves as a nation whether in effect the money we are able to spend is being spent in places where it is desirable, at the moment, to spend it.

I have suggested, and I underline, that because the problem of urban growth and development with all its attendant heavy financial costs is so heavy, that I think as rate-payer citizens in the communities we come from are all saying we have got to do something about it. I have underlined that this cannot be, that these major undertakings that are before the municipal Governments of the country cannot be proceeded with because they are financially unable, with their limited resources, operating in the kind of a financial straight-jacket in which they have to operate, they are unable themselves to undertake and commit the communities that they administer to these heavy obligations. We have reached the point, in my view, when as a nation we have got to see the parallel interest that exists between all levels of Government, federal, municipal and provincial in these problems that affect urban well-being.

The lively and vital interest of the Federal Government is already demonstrated by the fact that we do have a National Housing Act which does make available money for urban housing and other related measures. We do recognize in part the element of parallel interest but we have not recognized sufficiently the idea or the necessity that because of this parallel interest there must be some inter-fiscal sharing, parallelwise, in the cost involved.

Senator ROBERTSON: I too have enjoyed very much your presentation but there is one thing I would like to ask you. Running through your brief is the idea, it seems to me, of direct relations between the federal and the municipal Governments. You seem almost to entirely eliminate the provincial Governments? Why is that?

Mr. MOONEY: I have not suggested, Senator Robertson, that the provincial Governments be eliminated nor does the brief suggest that. On the contrary we concede and admit in the brief, and point out that the municipalities are part of the constitutional framework whereby they are the creatures of their respective provinces. The municipal Governments contend very strongly that in these matters such as we have been discussing that the provinces should be involved finance-wise and otherwise.

Senator ROBERTSON: For instance, you said that in the representations made to the Prime Minister that a federal-municipal fund be created. Why would not the provincial Government be included?

Mr. MOONEY: I would have no objection.

Senator ROBERTSON: I realize you do not have any objection but why would the provinces be excluded?

Mr. MOONEY: Senator Robertson actually that term Federal-Municipal Fund is a term which the municipalities created based on the proposition that there had been more or less the equivalent of that in the Municipal Assistance Act of 1935 which was a Federal-Municipal Loan Fund. The provinces of course had to agree and I understand that they had to participate as guarantors in any loans made to the municipality, but in effect it was a direct loan fund between the federal agency and the municipal Government.

Senator DUPUIS: Mr. Chairman, may I ask a question of our good friend Mr. Mooney, who we must congratulate for a well drafted brief?

I would like to know from him how he can reconcile the low rent of housing with the high cost of land. For instance, as he knows very well, in the slum district in the centre of the city of Montreal there is a housing project which has been accepted by many bodies in the city of Montreal and by the federal Government; but, at that place the cost of land is $10 a foot. As he has already said, if we add the cost of the building to the cost of the land, and the federal Government is bound to pay 50 per cent, how then can he reconcile the low rent in the city of Montreal with the high total cost of these buildings? Those people in that area were paying from perhaps $15 to $25 a month, but with the completion of this building project, if it is ever completed, there will be huge costs to the country and to the city of Montreal; and one of the costs involved in that of the land. Therefore, would it not be better to go outside the city of Montreal and buy low cost land, as was suggested, on the Domaine St. Sulpice?

Mr. MOONEY: I do not wish to get into a discussion about what is being presently done in Montreal, and there is a similar development in Toronto; however, I do want to say to Senator Dupuis, that the people who lived in that area, which has been described for the most part as a slum area, live there first because of the depressed values of the property which they rent very cheaply, and secondly because there were no attendant costs for transportation and other things. In cities like Montreal, Toronto and Winnipeg there will always be need for low-rental housing close to the core of the city, and if you do not provide re-housing for those people who are displaced from a slum area in a nearby area you have really not solved part of the problem that you have set out to solve, namely, to find ways and means whereby low income families can obtain decent housing at a minimum cost, and at the same time not add to their burden extra costs that are inherently involved if they have to go out to such places as Domaine St. Sulpice, which is four or five miles away.

Senator DUPUIS: Mr. Chairman, the witness is diverting the question to a social one. It seems quite proper not to displace these people for a certain time, but I am talking about the cost of these houses, and asking him how he can reconcile the low cost of renting them with the price of building them. Would it not be better from a financial point of view to take these places over in the centre of the city and use them for business purposes?

Mr. MOONEY: You could certainly build equivalent housing at lower cost if you had cheaper land cost.

Senator DUPUIS: We have cheaper land available in Montreal.

Mr. MOONEY: But you still would not resolve one of the problems you set out to resolve when you decided to eliminate the slums to provide decent housing for those people because, for the most part, they will require to live in the area in which they now live.

Senator DUPUIS: Was any census taken to determine that?

Mr. MOONEY: I understand there was a very comprehensive survey.

Senator DUPUIS: I never heard that they were consulted to determine whether they preferred new housing to a house in that very expensive area.

Mr. MOONEY: I am quite sure such a survey was made of the entire area before the project was proceeded with. In fact, it would greatly surprise me if Central Mortgage and Housing Corporation did not require such a survey before the construction was proceeded with.

Senator DUPUIS: Am I right, Mr. Chairman, in understanding from the witness that I was correct in my belief that the land values in part of the slum clearance area was $10 or $15 a foot?

Mr. MOONEY: Of those proportions.

Senator DUPUIS: In your brief you mention two districts around Montreal which were lacking a sewage system. Without asking you the names of those municipalities, may I ask if they are on the Island of Montreal?

Mr. MOONEY: They are contiguous bridgehead communities. I would be glad to give the names in confidence to the chairman.

The CHAIRMAN: The names may be given to Senator Dupuis.

Gentlemen, we have exhausted our quorum, and we must adjourn. May I thank you, Mr. Mooney, not only for your brief, but for your very excellent efforts in answering and trying to satisfy the inquiries of the senators.

The meeting adjourned until Thursday, July 31st, 1958.

APPENDICES REFERRED TO IN BRIEF SUBMITTED BY DR. A. STEWART, PRESIDENT, NATIONAL CONFERENCE OF CANADIAN UNIVERSITIES

REFERENCES

1. E. F. Sheffield, 'Canadian University and College Enrolment Projected to 1965', *Proceedings, National Conference of Canadian Universities 1955*, pp. 42-43.

2. Yves Dube, J. E. Howes and D. L. McQueen, *Housing and Social Capital*, a report of the Royal Commission on Canada's Economic Prospects, 1957, p. 84

3. E. F. Sheffield, 'Future Enrolment in the Universities—1958 Reading', *Minutes of the 1958 Conference of the Canadian Association of University Business Officers*, June 1958, pp. 35-37.

4. *Debates of the Senate*, 1st Session, 23rd Parliament, Volume 105, Number 23, December 3, 1957, p. 328.

5. C. T. Bissell (ed.), *Canada's Crisis in Higher Education*, Proceedings of the Conference held by the National Conference of Canadian Universities at Ottawa, November 12-14, 1956, p. 245.

6. *Proceedings, National Conference of Canadian Universities 1957*, p. 62.

APPENDIX I

CAPACITY OF UNIVERSITY STUDENT RESIDENCES RELATED TO FULL-TIME ENROLMENT IN 23 CANADIAN UNIVERSITIES, 1957-1958.

University	Men			Women			Total		
	Cap.[1]	Enr.[2]	%[3]	Cap.[1]	Enr.[2]	%[3]	Cap.[1]	Enr.[2]	%[3]
ATLANTIC PROVINCES									
Memorial University of Newfoundland	—	663	—	—	348	—	—	1,011	—
Dalhousie University	37	1,103	3	100	284	35	137	1,387	10
Nova Scotia Technical College	—	278	—	—	1	—	—	279	—
St. Mary's University[4]	230	323	71	—	8	—	230	331	70
Mount Saint Vincent College	—	—	—	175	311	56	175	311	56
Acadia University	293	466	63	193	254	76	486	720	67
Mount Allison University[5]	527	719	73	300	347	86	827	1,066	78
University of New Brunswick	85	1,211	7	70	152	46	155	1,363	11
QUEBEC									
Laval University[6]	325	2,913[e]	11	—	400[e]	—	325	3,313	10
University of Montreal[6]	115	3,330[e]	3	—	1,100[e]	—	115	4,430	3
McGill University	470	4,915	10	608	1,903	32	1,078	6,818	16
Sir George Williams College	—	953	—	—	197	—	—	1,150	—
ONTARIO									
Carleton University	—	479	—	—	166	—	—	645	—
University of Ottawa[4,6]	275	1,835	15	—	256	—	275	2,091	13
Queen's University[8]	220	2,009	11	311	553	56	531	2,562	21
University of Toronto[9]	883	7,823	11	600[e]	2,844	21	1,483	10,667	14
McMaster University	100	876	11	135	292	46	235	1,168	20
University of Western Ontario[6]	310	1,767	18	204	691	30	514	2,458	21
Assumption University of Windsor[9]	150	718	13	50	151	30	200	869	25
WESTERN PROVINCES									
University of Manitoba[6]	400	2,477	16	200	848	24	600	3,325	18
University of Saskatchewan[6]	245	2,511	10	105	766	14	350	3,277	11
University of Alberta[9]	588	3,073	19	152	1,143	13	740	4,216	18
University of British Columbia	780	6,314	12	202	2,291	9	982	8,605	11
TOTAL	6,033	46,756	13	3,405	15,30	22	9,438	62,062	15

NOTES:

[1] Capacity of residences. Sources: university calendars; *Commonwealth Universities Yearbook, 1958.*

[2] Enrolment of full-time undergraduate and graduate students at Dec. 1, 1957. Source: Dominion Bureau of Statistics, *Fall Enrolment in Universities and Colleges, 1957.*

[3] Capacity as percentage of enrolment.

[4] It seems likely that the residences serve secondary school students as well as university students.

[5] Including 32 apartments for married students—counted as capacity for 32 men.

[6] Exclusive of affiliated colleges.

[7] Including Macdonald College.

[8] Including capacity for 34 men and 21 women in co-operative residences, not owned by the university.

[9] Including associated colleges on the same campus.

[e] =estimated

APPENDIX II

AMORTIZATION TABLES

The tables show the montly rates required to amortize investments of $2,500, $5,000, $7,500 and $10,000 at rates of interest of 2, 3, 4, 5, 6, 7 per cent per annum compounded yearly. The rents are collected nine months every year. Table 1 assumes the rents can be collected for 20 years; Table 2, for 30 years and Table 3 for 40 years. The figures are rounded to the nearest dollar.

For illustration, suppose an investment of $5,000 per student is made in a building which lasts for 30 years, the interest rate being 3 per cent per annum. The rent per student each month required to amortize the investment is $28.

20 YEARS	2%	3%	4%	5%	6%	7%
2,500	17	19	21	22	24	27
5,000	33	37	41	44	48	53
7,500	50	56	63	66	72	81
10,000	67	74	82	88	96	106

30 YEARS	2%	3%	4%	5%	6%	7%
2,500	11	14	16	19	20	22
5,000	22	28	32	38	40	44
7,500	33	42	48	57	60	66
10,000	44	56	64	76	80	88

40 YEARS	2%	3%	4%	5%	6%	7%
2,500	8	12	14	16	18	21
5,000	17	24	28	32	37	42
7,500	24	36	42	48	54	63
10,000	33	48	56	64	74	84

APPENDIX III

Financial Estimates Regarding the Construction and Operation of a Student Housing Project for 752 Students on the Campus of the University of British Columbia.

Capital Cost

Land (University Campus)	nil
Residences	
a) Buildings	2,940,000
b) Furniture and Equipment	330,000
Dining Facilities	
a) Building	400,000
b) Equipment	100,000
Services and Utilities	
a) Water, Sewers & Drains	30,000
b) Heat	50,000
c) Electricity, Telephones & Fire Alarm	50,000
d) Roads & Parking	50,000
Landscaping	30,000
Total Capital Cost	4,000,000

Annual Operating Costs and Revenues

Revenue	
Regular Session	
752 students @ $70 for 7 months	370,000
Summer Session	
752 students @ $105	75,000
Conventions and meetings during May and June @ ¼ occupancy	65,000
Total Revenues	510,000
Operating Expenses	
Food and Housing services	400,000
Net Revenue	110,000

Annual Cost of Interest and Amortization of Loan over 50 years

Equity	*Loan*	*Total*	*Amount of annual payments at various interest rates and various amounts of loan*				
			3%	*3½%*	*4%*	*4½%*	*4¾%*
	4,000,000	4,000,000	155,462	170,535	186,201	202,409	210,700
1,000,000	3,000,000	4,000,000	116,596	127,901	139,651	151,807	158,025
2,000,000	2,000,000	4,000,000	77,731	85,267	93,100	101,204	105,350

As indicated in the above table the annual net revenues of approximately $110,000 would carry (a) close to *two-thirds* of the annual cost of interest and amortization at an interest rate of 3% and (b) about *one-half* the annual cost of interest and amortization at an interest rate of 4¾%.

APPENDIX IV

Exchange of correspondence between Dr. T. H. Matthews, Executive Secretary, National Conference of Canadian Universities, and Hon. H. C. Green, Minister of Public Works, May and June, 1958

Dr. Matthews to Mr. Green, 12th May, 1958.

I have been asked by the Board of Directors of the National Conference of Canadian Universities to enquire whether the Federal Government would be willing to consider making loans available through the Central Mortgage and Housing Corporation to the universities of Canada for the construction of residences for staff and students.

If such loans are contemplated, I should be most grateful if your Department would let me know the conditions under which they would be made.

Mr. Green to Dr. Matthews, 6th June, 1958.

In your letter of May 12th you advise that you have been asked by your Board of Directors to enquire whether the Federal Government would be willing to consider making loans available through Central Mortgage and Housing Corporation to Canadian universities for the construction of residences for staff and students.

I assume that your Board has in mind section 16 of the National Housing Act which provides assistance in the construction of low rental self-contained units to Limited Dividend companies. For reasons of policy we have not used the Limited Dividend plan to produce housing for special groups. You will

appreciate that any such assistance for one group would involve consideration of a great variety of other groups, for example nurses and staffs of public institutions.

The term "housing project" for purposes of section 16 is confined to self-contained accommodation. The financing of dormitory accommodation by means of the National Housing Act would require legislation to permit such loans.

The whole question of housing at colleges and universities is currently being studied and is one aspect of the housing problem that will be examined very carefully when possible amendments to the National Housing Act are being considered.

APPENDIX V

NATIONAL CONFERENCE OF CANADIAN UNIVERSITIES

Universities of the Conference

Acadia University	Wolfville, Nova Scotia
University of Alberta	Edmonton, Alberta
Assumption University	Windsor, Ontario
Bishop's University	Lennoxville, Quebec
Brandon College	Brandon, Manitoba
University of British Columbia	Vancouver 8, British Columbia
Carleton University	Ottawa, Ontario
Dalhousie University	Halifax, Nova Scotia
University of King's College	Halifax, Nova Scotia
L'Université Laval	Quebec, Quebec,
University of Manitoba	Winnipeg, Manitoba
McGill University	Montreal, Quebec
McMaster University	Hamilton, Ontario
Memorial University	St. John's Newfoundland
Université de Montréal	Montreal, Quebec
Mount Allison University	Sackville, New Brunswick
Mount Saint Vincent College	Halifax, Nova Scotia
University of New Brunswick	Fredericton, New Brunswick
Nova Scotia Agricultural College	Truro, Nova Scotia
Nova Scotia Technical College	Halifax, Nova Scotia
Ontario Agricultural College	Guelph, Ontario
Université d'Ottawa	Ottawa, Ontario
Queen's University	Kingston, Ontario
Royal Military College of Canada	Kingston, Ontario
St. Dunstan's College	Charlottetown, P.E.I.
St. Francis Xavier University	Antigonish, Nova Scotia
Université Saint-Joseph	Saint Joseph, Cte West, New Brunswick
St. Mary's University	Halifax, Nova Scotia
University of Saskatchewan	Saskatoon, Saskatchewan
University of Sherbrooke	Sherbrooke, Quebec
Sir George Williams College	1435 Drummond Street, Montreal, Quebec
University of Toronto	Toronto, Ontario
University of St. Michael's College	Toronto, Ontario
Trinity College	Toronto, Ontario
Victoria University	Toronto, Ontario
University of Western Ontario	London, Ontario
* National Research Council	Ottawa, Ontario
* Canada Council	Ottawa, Ontario

* Special membership

1958

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE

on the Report of Central Mortgage and Housing
Corporation for fiscal year ending
December 31, 1957.

No. 8

THURSDAY, JULY 31, 1958

The Honourable C. G. Hawkins, *Chairman*

WITNESSES:

Mr. Louis A. Rice, President, Toronto Metropolitan Home Builders Association.

Mr. W. G. Clements, Secretary-Manager, Toronto Metropolitan Home Builders Association.

Mr. Stewart Bates, President, Central Mortgage and Housing Corporation.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1958

Extract from the Minutes of the Proceedings of the Senate, Wednesday, June 11, 1958.

The Honourable Senator Aseltine moved, seconded by the Honourable Senator Quinn—

That the names of the Honourable Senators Brunt, Emerson and Thorvaldson be added to the list of Senators serving on the Standing Committee on Finance.

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

THE STANDING COMMITTEE ON FINANCE

The Honourable C. G. Hawkins, *Chairman*

The Honourable Senators

Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Burchill
Campbell
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Dupuis
Emerson
Euler
Farris
Fraser
Gershaw
Golding
*Haig
Hawkins
Hayden
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Pratt
Quinn
Reid
Roebuck
Robertson
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
White
Woodrow—44

(Quorum 9)

**ex officio member.*

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate

TUESDAY, May 20, 1958.

With leave of the Senate,

The Honourable Senator Aseltine moved, seconded by the Honourable Senator Pearson—

That the Report of Central Mortgage and Housing Corporation for the fiscal year ended the 31st of December, 1957, be referred to the Standing Committee on Finance for consideration and report.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, July 31, 1958.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.30 a.m.

Present: The Honourable Senators Hawkins (*Chairman*), Connolly (*Ottawa West*), Crerar, Gershaw, Haig, Horner, Isnor, Lambert, Pearson, Pratt, Smith (*Queens-Shelburne*), Thorvaldson, Turgeon and White—(14).

In attendance: The Official Reporters of the Senate.

Consideration of the order of reference of May 20th, 1958, was resumed.

The following were heard and questioned by members of the Committee:—

Mr. Louis A. Rice, President, and Mr. W. G. Clements, Secretary-Manager, Toronto Metropolitan Home Builders Association.

Mr. Stewart Bates, President, Central Mortgage and Housing Corporation.

At 1.10 p.m. the Committee adjourned to the call of the Chairman.

Attest.

John A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, Thursday, July 31, 1958.

EVIDENCE

The Standing Committee on Finance, to which was referred the report of the Central Mortgage and Housing Corporation for the fiscal year ended 31st December, 1957 met this day at 10.30 a.m.

Senator HAWKINS in the Chair.

The CHAIRMAN: Gentlemen, the hour of 10.30 has arrived and we have a quorum. We have with us this morning two of the officers of the Toronto Metropolitan Homebuilders' Association. We also have with us this morning Mr. Stewart Bates, President of Central Mortgage and Housing Corporation, the Steering Committee having decided that it would be wise to have Mr. Bates present at this last meeting of the committee to sort of tidy up and wind up the proceedings.

First of all I will introduce Mr. Louis A. Rice, president, and Mr. W. G. Clements, secretary-manager, of the Toronto Metropolitan Homebuilders' Association.

Mr. Clements will deliver the brief on behalf of the Association.

W. G. Clements, Secretary-Manager, Toronto Metropolitan Homebuilders' Association, Toronto, called.

Honourable senators, the Toronto Metropolitan Home Builders' Association has been continuously active since its incorporation in 1921. It has a membership of approximately 600, consisting chiefly of merchant builders but also including supply and service firms and sub-contractors in the house building industry. This organization is an affiliate of the National House Builders Association which has already appeared before you. However, we appreciate the privilege of presenting information on matters affecting house building costs and financing, particularly as they apply to a rapidly growing area such as Metropolitan Toronto, for which we speak.

Firstly, may we say that at the centre of today's housing problem is the need to bring costs down within the grasp of the maximum number of wage earners. As an Association we built some demonstration low rental units in 1954 which, with government co-operation in regard to land acquisition, our members hoped to be able to produce in quantity to rent at $58 monthly. Over 6,000 cards expressing a desire to rent such accommodation were received from visitors to the houses. The project did not materialize, but the response did further convince us of the need for lower cost accommodation.

To reach the average wage earner, every housing dollar that can be saved without impairing structural or financial soundness must be saved. A house selling at the average NHA price of $14,362, and with a mortgage of $12,527, requires an annual income of $4,452, on the 27% debt ratio basis. In other words, every $1,000 of mortgage means a difference of approximately $7.00 in the weekly pay envelope required to qualify for the mortgage.

While builders were highly pleased with CMHC's recent change to a 27% debt ratio basis, we might point out that some lending institutions refuse to recognize it and still insist upon the old 23% basis. At least one company will accept the 27% on direct loans only; not on regular NHA insured mortgages. Where the 23% basis is used, every $1,000 of mortgage means a difference of

$8.00 in the weekly pay required. These amounts may sound small, but they have real significance in their effect on the number of potential home owners.

By far the greatest obstacle to the building of low cost housing in the Metropolitan Toronto area, is the expense of developing land for building purposes. May we examine the reasons for this situation.

Prior to 1946, the cost of supplying services such as paved roads, curbs and gutters, sewers, watermains and sidewalks were met chiefly by taxes raised under local improvement by-laws. Since then a practice has developed under which all of these costs are loaded upon the house purchaser as part of the original purchase price.

It has become standard practice for municipalities within the Toronto area to demand the installation of every conceivable improvement as conditions of approval of a plan of subdivision. These requirements include the following:

1. Complete sanitary sewer systems and storm sewer systems.
2. Oversize sewers if necessary to serve areas beyond the limits of the subdivision.
3. Paved streets and undertakings to maintain them for two or three years after construction.
4. Sidewalks, curbs, street lights and signs.
5. Planting of trees and sodding of all front lawns and, in one case at least, sodding of the entire lot.
6. Contributions on a foot-frontage basis to cover municipal capital expenditures.

A typical example of the cost of servicing building lots is outlined below:

Raw land (40 acres)	$209,075.00
Legal fees	1,113.00
Mortgage interest (18 months)	22,800.00
Municipal taxes (18 months)	5,025.00
Municipal park dedication	10,453.00
	$248,466.00
Raw land cost per lot (222 lots) $\frac{248,466}{222}$	$ 1,120.00

Cost per Lot

Raw land cost (as above)	$ 1,120.00
Roads, curbs, sidewalks, sewers and water (double connections)	1,783.00
Storm outfall	95.00
Engineering fee @ 6.00	113.00
Survey	25.00
Town planning consultants fee	7.00
Municipal grant @ 35.00 per acre (engineering fee)	7.00
Municipal contributions @ 5.00 per lin. ft. frontage and flankage	295.00
Municipal sewer inspection fee	29.00
Municipal water meter	20.00
Performance bond (18 months)	21.00
Maintenance bond (24 months)	8.00
Company overhead	98.00
Total	$ 3,621.00

Serviced Lot Cost

Average width on 222 lots	44.7 ft.
Cost per frontage ft.	$81.00

The foregoing example is picked at random from the Township of Scarborough but the major dormitory municipalities in Metropolitan Toronto, namely Scarborough, Etobicoke and North York are comparable. Further, many requirements which originate in Toronto appear to establish trends which are subsequently adopted in municipalities right across Canada.

The example is quite conservative in that the municipal park dedication is computed at raw land cost. More common is the practice of the municipality taking several fully serviced lots or demanding a large cash contribution.

As recently as 1958, Scarborough has made additional demands as set out below which have added a further $418.00 per lot to the costs:

⅝ water service (separate connections) to lot	$ 37.00
Separate sewer connections to lot	98.00
Municipal 25′ setback (additional length of sewer, drive, water, sidewalk and sod)	23.00
Rear yard sodding (approx. 650 sq. yds. per lot)	235.00
Public Utilities Commission charge	25.00
	$418.00

All of the demands required to be met in processing a plan of subdivision increase the cost of providing building lots and it will be seen from the foregoing breakdown why the minimum price for serviced lands in Metropolitan Toronto today has now been driven beyond $4,500 per lot. As there is a direct relationship between the cost of the finished house and the cost of the lot it has become impossible to build houses for sale in the price bracket where the greatest need lies. Even in the case of a house selling at $15,000, the land cost alone represents about one-third of the total price.

Still another cost-adding factor is the demand made by many municipalities upon the subdivider and builder to provide industrial assessment on a percentage basis. Residential building permits are not issued until proof is provided that the industrial assessment is forthcoming. The subdivider thus finds himself in the position of fighting for industries and paying their assessments. The end result of all this is that the home purchaser subsidizes the industries. We appreciate the position of the municipalities in this matter, but a much more fair distribution of taxes might be obtained if all industrial and commercial assessments went directly to the province and were then equitably distributed back to the municipalities.

In addition to these growing expenditures, other factors, such as minimum lot size requirements and prohibition of the construction for sale of higher density multiple family residential units such as row housing, contribute to the increase of the cost of the finished product. One municipality, for example, now requires that frame houses be a minimum of 17 feet from the lot line; 34 feet between houses.

This Association believes that some of these requirements are non-essential and might well be eliminated. On the other hand, the crux of the problem still appears to be the inability of the municipalities to finance those improvements which are quite properly considered as essential.

It is the submission of this Association that the Government of Canada, perhaps in co-operation with the Provinces, should find some way of helping to provide the basic services which are needed for proper housing. The provision of trunk sewers, disposal plants, watermains and pumping stations has become much more than a matter of local concern. We submit that, since the problem appears to be beyond the financial range of the municipalities, there is an urgent need for help from higher government levels in this matter.

The provision of trunk sewers and watermains over adequate areas would also have the effect of balancing supply and demand in respect to land suitable

for subdividing. At the present time there is so little land available for immediate servicing that a "sellers' market" exists in regard to raw land prices.

May we also point out that the cost of developing land today has become a major financing operation because most municipalities demand that these services be installed before construction of houses is started. This restricts land development to those with large capital resources. As a result there is danger of this work falling into the hands of a few big companies.

We submit that another urgent need is for a steady, predictable supply of mortgage money. The recurring shortage of this "raw material" of house building impedes long range planning, keeps the industry in a chaotic state, lowers efficiency and adds to cost. We do not presume to suggest how this situation might best be overcome, but we do believe that this problem should be kept uppermost when government housing-finance policies are being formulated. Provision for the entry of the chartered banks into the mortgage lending field has already been a most encouraging move—as has the NHA residual lending plan.

We notice that under the present regulations, direct, residual loans are available to home-owner applicants in centres with populations in excess of 55,000. Speaking particularly for the Metropolitan Toronto area, this Association submits that mortgage loans of the home-owner applicant type do not lend themselves to the best use of the funds which are available. They are not in accord with accepted practice among home buyers.

The subdivider sells lots wholesale to the merchant builder who uses production type techniques to keep costs and sale prices at a minimum. In these circumstances the individual finds it almost impossible to buy a single lot. Even if he were able to do so it would be of doubtful advantage to him. The place for home-owner applicant loans would appear to be in the $20,000-and-over price bracket. Here the owner can usually afford to pay the price for custom styling and building. But this is a field for conventional rather than NHA financing.

In seeking means by which costs can be reduced, the mortgage insurance fee charged by CMHC and which is added to the amount of the mortgage, has received some scrutiny. However, this Association would concur with the opinion that against liabilities of $1½ billion, the amount of $30 million now accumulated in the fund cannot be considered as excessive. We would agree that it is prudent to allow the 2% rate to remain and that the situation should be reviewed when the default position is better known and the fund has reached an improved ratio in respect to liabilities.

Finally, may we stress the heavy cost of the rules, regulations and requirements which are imposed upon house building by a variety of boards, councils and commissions; each with its own special objectives and each with the power to enforce them. The most disturbing thing is that they tend constantly to increase; sometimes, we feel, without due regard for the eventual cost to the home buyer. Excessive lot size requirements are a typical example.

We appreciate the value of the National Housing Act to the home buyer and to the home builder. Furthermore, the Act has been kept up-to-date and administered in a manner that has earned our respect. At times differences of opinion arise but they are usually settled reasonably and to the best advantage of the home purchaser. Nevertheless we submit that the inclusion of a builder on CMHC's Board of Directors, to take his place with representatives of architecture, social service and labour, would further co-ordinate activities.

No one is more interested than the merchant builder in providing the best housing at the lowest cost. With an adequate supply of land and mortgage finance he can and will meet the need.

All of which is respectfully submitted.

Toronto Metropolitan Home Builders' Association.

Mr. Chairman, this concludes our brief. If there are any questions you wish to ask on the subject, I suggest that they be directed to our president, Mr. L. A. Rice, who is a builder, and whose day by day work brings him into contact with most of the problems involved.

The CHAIRMAN: Thank you, Mr. Clements for a very excellent brief.

Gentlemen, the meeting is now open for questions which you may wish to direct to Mr. Rice in connection with the brief.

Senator SMITH (*Queens-Shelburne*): Mr. Rice, I am interested in the statement on the first page of the brief in which you point out that some lending institutions refused to recognize the increase to 27 per cent of a debt ratio basis. Have you noticed that is happening in a large number of instances, or does it happen only once in a while, where a mortgage company still insists on a ratio of 23 per cent?

Mr. L. A. Rice, President, Toronto Metropolitan Home Builders' Association: Senator Smith, I can't say this is happening with a great many companies, but we know of one instance where it does happen; they take the attitude that with agency funds they can take a greater risk, while with their own funds they would rather not take what they think is a greater risk; therefore, they insist on the 23 per cent ratio being maintained.

Senator SMITH (*Queens-Shelburne*): I can understand why some companies would do it. My question is, does it happen often enough to make it an important factor?

Mr. RICE: I don't know. This is something which came to light only recently. Maybe if we pursued the subject further we might find some other companies taking the same attitude.

Senator CRERAR: Mr. Chairman, the assembly seems a bit quiet; I have one or two questions to ask. For instance, Mr. Rice, on page 3 of your brief, in the third paragraph from the bottom of the page, you speak of the need of a steady and dependable supply of mortgage money. You refer to it as the "raw material" of the building industry, and you say that the shortage of this raw material lowers efficiency and adds to the cost of homes built. You say, "We do not presume to suggest how this situation might best be overcome."

You point out that there is a situation existing that is impeding housebuilding but you have no suggestions to make as to how it can be overcome. I suggest that it would be useful to the committee if you could offer some suggestions as to how it can be overcome.

Mr. RICE: That is a very good question, Senator Crerar, but I do not think that I am qualified to answer it. It would take a lot of study to find the answers. I am sure, however, that there are many men employed by the Government who could probably work out the solutions better than we could.

Senator CRERAR: Also in your brief you make about the same kind of comment which we had before the committee on a previous occasion as to the cost of supplying sewers, sidewalks, storm sewers, watermains, as being one of the real barriers to the building of houses by members of your organization, and everybody claims that they have no suggestions as to how it could be overcome. Is it your idea that the federal Government should make contributions to the costs of these services?

Mr. RICE: Senator Crerar, I am not an authority on the subject but I understand that quite a number of years ago the federal Government did contribute under some scheme and I understand that scheme is still on the books, that the Government contribute up to about one-third of the cost to a municipality to roadbuilding programs and so on. That might be a partial answer.

Senator CRERAR: Well, if that was the case at one time I think that perhaps the federal Government of that time should have had its head examined. The point I am getting at is this, and to me it is a very important point: who pays in the end? Are we going to incur deficits and increase the public debt? I think that is a very important point that should be cleared up. Implicitly many of these presentations that have been made to us recommend something along this line.

Mr. RICE: I certainly do not subscribe to subsidies. I do not believe that that solution is in the best interests of all concerned. In reading your proceedings we have noticed that during the various discussions the low-cost house is being discussed continually and we believe that probably in the long run it would be in the best interests of the country as a whole to have the lower cost house built. This method could save money in the long run rather than shift the burden to the municipalities, having the municipalities spending large amounts of money to build low-cost housing. We believe however that it can be done without direct subsidies to the homebuilder. So these grants which you mention which might be a burden on the country as a whole I believe possibly would be cheaper in the long run.

Senator CRERAR: No matter how it is done, if assistance is given it is a subsidy.

Mr. RICE: Well that might be true. But many other industries are subsidized. The farmers, for instance, are subsidized in certain respects.

Senator CRERAR: Will you agree with this, that if that principle is to be extended to farmers and to everyone else that sooner or later the Government must take the authority to direct their activities?

Mr. RICE: Unfortunately I have to agree with you, and I for one see the danger in a situation of that nature.

Senator CRERAR: You would not say for a moment that that is a desirable journey's end to arrive at?

Mr. RICE: I do not think it is too desirable but if it is a necessary evil we may have to have it.

Senator CRERAR: Now, that is a dangerous statement. Do you not think that a line of action will eventually change our whole complex of freedom?

Mr. RICE: I entirely agree with you Senator Crerar, but I think you are getting a little too deep for me now.

Senator CRERAR: I do not want to get too deep for you at all. But it does seem to me that that is a very important point.

One other question, Mr. Rice: have you any view on the fact that we are putting too much emphasis on the building of big metropolitan areas, big cities?

Mr. RICE: I believe that we are. It creates many problems, transportation problems for instance. I believe possibly people might be happier living in smaller centres that can be handled more economically. I believe you are absolutely right.

Senator CRERAR: As a matter of fact, during the depression years of the thirties, 90 per cent of the problems of Government I will say, certainly outside the agricultural area of Saskatchewan, arose in the cities. I know that is a fact in the province of Manitoba because I have the figures somewhere.

Mr. RICE: I cannot speak with any authority on that subject, Senator Crerar.

Senator LAMBERT: Mr. Chairman, I wanted to ask the witness with reference to the first paragraph describing the membership of this organization which is made up of, I assume, merchant builders and accessory supply houses,

whether they have contacted the municipal authorities of the Toronto areas in connection with this submission? Has it been closely discussed with them? In other words this is a problem that affects the whole metropolitan area of Toronto, as I understand it, and you come here to a federal committee to discuss ways and means of maintaining the housebuilding industry in that area. What is the official position of the city of Toronto in connection with this? Does it recognize a present demand for new house areas being developed at the present time?

Mr. RICE: I think, Senator Lambert, the problem in Toronto at present is the question of supply of the large service facilities such as sewerage facilities, collector sewers and water feeder mains. I believe we are all conversant with the amalgamation of the 13 large municipalities around Toronto into the metropolitan area which was formed for that reason. I believe it was created by Bill 81, a provincial bill. The Metro Council is concerned directly with these large items, while the smaller municipalities, which form part of the metropolitan Toronto setup, deal more or less directly with the subdivider and builder. So we have two separate bodies which we are dealing with in the Toronto area. I am sure that these various bodies are well aware of our feelings in these matters, and are aware that from time to time briefs of this nature have been presented before public institutions.

Senator LAMBERT: Last week we had as a witness Mr. G. S. Mooney, Executive Director of the Canadian Federation of Mayors and Municipalities. I was just wondering in connection with what he had to say and what he agreed with under questioning, whether the city of Toronto proper, or the metropolitan area, would support everything in this brief from the point of view of immediate necessity?

Mr. RICE: Senator Lambert, I don't think at this time they would make a statement of that nature. I believe they sincerely feel they should do what they are doing but personally I don't know what the various members of these boards think in this regard.

Senator LAMBERT: May I ask you this direct question? Do you think that the demand for new housing, particularly in the field you are speaking of, low-rental housing, which is the type that has been emphasized here, has increased? In other words, is there any increased pressure in the demand for such accommodation at this stage as compared with what it was a year or two ago?

Mr. RICE: I believe the pressure is steadily building up and that we are not alleviating the housing situation for the lower-scale wage earners, who naturally make up the bulk of our population. We are forcing them into higher-priced accommodation, such as apartments, and consequently they are unable to save enough money to make a down payment on a low-cost home.

Senator LAMBERT: I am thinking of present economic conditions and, as far as I can see, there is no prospect of them improving a great deal, and I am wondering if these conditions will have some repercussions on the house building industry. In your brief you naturally represent those interested in maintaining housebuilding activities. I am interested in knowing what the demand for those houses might be. There is no consumers' league or organization to give us the consumer's point of view on these things. Representations of public need come to us from provincial organizations, you might say, whose interest is mainly in keeping up the pace of building.

The CHAIRMAN: We have Mr. Stewart Bates here, Senator Lambert, and you can ask him later.

Senator LAMBERT: Mr. Bates has given us the position that Central Mortgage and Housing Corporation has taken in relation to all this, but he too

is limited to a certain extent in connection with these things. We have had admissions here from all quarters that there is some doubt as to whether or not there is an acute shortage in the supply of houses to accommodate people at this time. I know Toronto is growing very rapidly and there has been a demand there for new houses, and so on, but to appreciate to just what extent there may be pressure for new housing I think we have to relate it to the economic situation.

Mr. RICE: Senator Lambert, I cannot give you any statistics to prove there is a need but I can tell you from my direct contact with the buying public that there is a need and a demand. I cannot tell you whether it is for 100 houses or 1,000 houses, but there is a demand for a lower-cost house.

Senator SMITH (*Queens-Shelburne*): Mr. Rice, don't you really mean the market when you use the word "demand"? You say there is a great demand for low-cost housing. Don't you really mean a market where people would have the money to buy a low-cost type of house, and where you could get the cost down by doing something about the cost of the land? Perhaps I am putting the word "market" into your mouth and you do not intend to use it, but I would like you to tell me if you mean market.

Mr. RICE: I suppose demand and market are normally linked together, Senator Smith. Let us say that the market is dependent upon the demand. If people require this type of housing and it is all they can afford to buy, and they are satisfied to buy it, then we should satisfy their demand.

Senator HORNER: I was going to suggest to the witness that, of course, he would not like to give that reply to Senator Crerar, but I don't mind pointing out to Senator Crerar that when he formed part of the Government which instituted many of the things now heading in the direction he fears, I did my best then to point out to him it was a downhill and slippery road with no return. I said that once you start on a course of that kind you couldn't turn back. Now he is endeavouring to change directions in midstream.

The CHAIRMAN: I appreciate your point. There is only one thing I am going to say. I am not going to give Senator Crerar an opportunity to reply at this time.

Senator CRERAR: I can assure you that I don't wish an opportunity to reply.

Senator ISNOR: In regard to the survey that was made in 1954, four years ago, you received 6,000 applications for $58-a-month accommodation. What is the main reason you did not proceed along that plan?

Mr. RICE: At that time, Senator Isnor, we had some discussions with members of the provincial Government, who I believe are partners with the federal Government in the ownership of land, and at that time the property which we had in mind was not forthcoming.

Senator ISNOR: Do you think it would have shown a profit to you?

Mr. RICE: I might say that we as an association felt we should contribute a certain amount. We felt that we should do this as a gesture of good will and good faith on the part of the homebuilders in the Toronto area. We believed we should contribute something towards alleviating the situation, and while this scheme may not have alleviated the situation to any great extent, we were willing to contribute in some small manner in helping towards this end. In other words, there was not a great deal of profit in the building of these low-rental houses but we were willing to go along in a scheme such as that.

Senator ISNOR: The fact remains, however, that there were 6,000 applications, and now you are at the same stage that you were in 1954. For some reason or other, you did not proceed?

Mr. Rice: Yes.

Senator Isnor: And we have just reached that stage now, Mr. Chairman, trying to create or construct houses at something near the rent of $56 a month. May I inquire, Mr. Rice, as to whether there are any restrictions in regard to the frontage? You state that in the metropolitan area it is 44.7 feet. I always understood it was around 50 feet that the developers tried to use?

Mr. Rice: I believe that the Planning Department of Ontario asked that all municipalities follow the 50 foot lot width, and Scarborough, I understand, was a hold-out, and they did not subscribe to the full 50 foot, and so we have this figure arising in Scarborough. Most other municipalities do use the 50 foot measurement for the width of a lot.

Senator Horner: You point out here that a 17 foot clearance is required. You would not be able to build a very large house even on a 50 foot lot with a 17 foot clearance.

Mr. Rice: That is correct; that is something that has happened in the last two or three months. We know of one municipality, at least, that has passed a new bylaw with respect to this.

Senator Horner: Nearly all the provinces, or at least Saskatchewan, regards a 50 foot lot as a must for all new buildings—at least 50 feet.

Mr. Rice: The Planning Department of Ontario asks for that, I believe; I do not know if it is mandatory or not.

The Chairman: Any further questions?

Senator Isnor: Yes, I want to talk about land value in Toronto. Mr. Rice states in his brief that roughly speaking it is a third of the price of a completed house. Would that apply to the higher-priced houses as well?

Mr. Rice: Unfortunately it does, senator. If we get into the type of house, say, $50,000, the builder may pay anywhere between $12,000 and $13,000 for 80 feet, 90 feet, or 100 feet of land.

Senator Horner: Didn't that include, in your brief, the servicing, or was it the land alone?

Mr. Clements: That included the servicing.

Senator Isnor: $1,000 less the services.

Senator Horner: The services are more than that.

Mr. Rice: If you take off the cost of the raw land which we have at $1120 a lot from the total of $3600, we have roughly $2500, the cost of servicing this particular lot, and as we pointed out below there is now in Scarborough an additionnal cost of $418, which has also happened in the last few months.

Senator Pearson: In your planning of new subdivisions in these metropolitan areas, is it not true that the cities are just gradually creeping out all the time, and that the owners of those pieces of land know that eventually they are going to be part of that city and there is a big hold-out causing prices of land to go up very high in those areas?

Mr. Rice: I would say that is quite correct.

Senator Pearson: Would it not be a better situation if instead of following a plan of creeping out they followed a plan like the Great Belt area around Ottawa, as was proposed? They said, "The city will stop here, and the next subdivision will be twenty miles out"; and then they could buy property out there with the anticipation that later that would be developed as the city grew?

Senator Haig: Let me point out something before Mr. Rice answers. Water and sewers enter into the problem.

Senator PEARSON: The problem is this, Mr. Rice. You would start out with a new community, moving out say ten or twenty miles, which would be an entity in itself. It would also have to have its own servicing in that area. It would not be connected with the metropolitan area at all.

Senator HAIG: They couldn't get it. The cities cannot get it on the prairies.

Senator PEARSON: I am not speaking of the prairies particularly.

Senator HAIG: Winnipeg brings us water about 70 miles, and we have the greatest source of water and the best water in Canada.

Senator PEARSON: But I would like to get Mr. Rice's answer to my question.

Senator HAIG: I want to hear Mr. Rice's answer not on your basis at all, but on the basis of the whole question being put to him. It is the water and sewers that he is troubled about?

Senator PEARSON: I am just asking a question that I would like answered.

Mr. RICE: I am a little confused now.

Senator PEARSON: It is the cost of land I am thinking about, not the servicing or anything else, just the cost of land at this time. In your brief you build roughly four houses to the acre. That adds tremendously to the cost of that house. Now, would it not be possible to move out from the cities say ten or fifteen or twenty miles away and spot your land before, and buy that land so that you could get it cheaper?

Mr. RICE: Yes, I believe that, senator. If a large enough area could be purchased at one time so that the price is not bid up by speculators, for instance if you go ten miles north of No. 7 highway in Toronto, which is not a great distance so far as metropolitan Toronto is concerned, land could possibly be purchased for as low as $200 to $500 an acre, whereas we have this terrific price of $5,000, and in some instances $8,000, in the closed-in area; and if a huge area could be purchased at the very low price, that would answer your question. There is also probably another avenue to be explored. We believe that the price of land is determined by the proximity of water and sewer mains, so that if large lengths of water and sewer main could be laid along various roads leading through these various areas which could be developed there would be so much land available close to the services that automatically the price could be reduced. I am not saying that is possible, but it is a theory.

Senator HAIG: Name one city to me where that could be done outside of Toronto.

Mr. RICE: I am not prepared to do that, senator, I cannot tell you. I know Toronto, I am not too familiar with other cities.

Senator HAIG: You could not get people to go ten miles out of Winnipeg, the distance is too far to come into work every morning and go home every night, and they will not do it.

Senator PEARSON: They have done it for years in Selkirk; they have been travelling a distance of 25 miles in and out.

Senator HAIG: That is all right; they couldn't find any other place to go. These cities have to compete with other cities across Canada for manufacturing; Winnipeg has to compete with Toronto and Montreal on price, but if we have to cart the goods over an area 10 or 20 miles, we can't compete successfully. The people won't go to live there.

Mr. RICE: That may be the trend, but in the Toronto area we don't seem to have that problem.

Senator HAIG: Furthermore, in Winnipeg we can't get water closer than 80 miles away. This year the water level in the lake is down five feet, and machinery had to be bought to pump it, whereas in other years it ran downhill

to Winnipeg for a distance of 65 miles. As I say, now we have to pump that water into pipes to serve these people. Who is going to pay for it?

This is the situation: You can buy land 10 miles out of the city for a $100 an acre, or you can buy land within the metropolitan area for $800 an acre. The $800 land is cheaper than the other land, because you can build four or five houses on it and sell them. You can't sell the houses you build on the $100 an acre land.

Senator PEARSON: Would it not be cheaper to buy the land farther out at this time and take the water to it from the metropolitan area?

Senator HAIG: It costs too much.

Senator PEARSON: It would be cheaper than paying the $5,000 an acre that we hear about, for land in the metropolitan area. Surely, you could lay a lot of pipe for that price.

Senator PRATT: Mr. Chairman, I am sorry that I was not able to be in the meeting for the reading of what appears to be a very informative brief. May I ask if it contains anything which involves matters of federal concern, or does it deal exclusively with the jurisdiction of the city of Toronto and the province?

Mr. RICE: Senator Pratt, we are talking as a local group from this large metropolitan area of Toronto. We believe that in so doing we can put our point across, and the Central Mortgage and Housing Corporation may come into the picture in some manner to enable us to bring about lower costs to the home builder. I may be entirely wrong, senator, but I believe we are rapidly reaching the point within our area where there will be no homes built for less than $20,000. This is not our fault, but is due to rising costs.

Senator PRATT: The main feature of your presentation is to bring C.M.H.C.'s operations more closely in touch with the operations in this area.

Mr. RICE: As we point out in our brief, generally across Canada these things seem to follow a pattern. I don't know where they start, whether in Montreal, Toronto or Winnipeg, but once they start they seem to follow a pattern and spread across Canada; every municipality eventually is faced with the same problem.

Senator SMITH (*Queens-Shelburne*): Mr. Rice, can you give us any information as to what the taxes would be on a typical $15,000 house in the metropolitan area?

Mr. RICE: In Etobicoke, for instance, we estimate the taxes on a 1,050 square foot residence, costing $15,200, to be $250. That is on the minimum sized lot, 50 feet, with all of these various things included in the price, curb, pavement, water, sewer and so on.

Senator SMITH (*Queens-Shelburne*): In other words, if the municipality itself is going to look after these extra costs, your taxes would therefore be quite a bit higher.

Mr. RICE: If all those services are installed, that is quite true. We also believe that the requirements may be a little too high. In other words, the home owner initially would not require the services, but the municipality asks for them.

Senator SMITH (*Queens-Shelburne*): I think it is interesting to point out to you that even in small towns where we do not have the extra cost of high priced lots, we are paying more taxes on the $15,000 house than you are paying in the heavily populated area. It strikes me if a man wants to live in a metropolitan area he should be quite willing to pay more taxes on his home than if he lives in a small town, because he gets the benefit of higher wages and so on.

Therefore, I am wondering if there is undue complaint from those who want to live in an area like metropolitan Toronto, because they have to pay more on the capital costs to get sewer and water connections; whereas, in other municipalities these things are paid for on the taxes, and they are quite considerable, particularly when related to the average income. My point is, I am wondering if we should recommend that the national body should reduce the cost to those particular home owners in areas like metropolitan Toronto.

Perhaps you do not wish to comment on that.

Mr. RICE: Senator, don't get me wrong; we are not asking this for Toronto alone.

Senator SMITH (*Queens-Shelburne*): I understand that.

Mr. RICE: It is the trend which is rapidly travelling across Canada.

Senator CRERAR: Mr. Chairman, I have a few questions I should like to ask. At the top of page 2 of the brief you give a typical example, which I take to be an accurate example and not a theoretical one.

Mr. RICE: Yes, it is an actual example.

Senator CRERAR: In your actual example you as a builder go out to buy 40 acres. The first thing the municipality does is insist that it be supplied with a sanitary sewer and storm sewer system; then it must have over-sized sewers, if necessary, and some municipal official will determine that. Then you must have paved streets and undertakings to maintain them for two or three years after construction; you must have sidewalks, curbs, street lights and signs; you must plant trees, sod the front lawns, sod the entire lot. Evidently the municipal authorities in this instance have very aesthetic tastes. On top of that you must make a contribution on a foot frontage basis to cover municipal capital expenditures—that is probably your share of the salary of the mayor, or something of that kind. You pay about $5,225 an acre for your 40 acres, and then you start to develop it.

The brief is very interesting, Mr. Chairman, in that it sets out very clearly the various costs of developing an area until the house is built. But do you not think that $5,000 an acre is a bit exorbitant? If someone bought that land in the first instance, knowing that it was going to be used for house building, and sat on it, demanding his price, do you not think the municpality would be a little lax in allowing that to happen and failing to take steps to make the land available at a cheaper price?

Mr. RICE: Senator Crerar, you are absolutely right, but we are living in a free economy and a democracy, and if a man does not wish to sell his land I believe that is his privilege.

Senator CRERAR: Do you know what I would do in a case like that? I would say, "Very well, sit on your land but you will pay taxes every year on it and you can sit on it for 50 years if you want to."

Senator SMITH (*Queens-Shelburne*): In order to complete the picture in my mind, have you any information as to how much water rates would be, that is the amount of money that it costs the householder for water, and also sewer rates?

Mr. RICE: We have no sewer rate in the same sense as we have a water rate.

Senator SMITH (*Queens-Shelburne*): There is no charge for sewers?

Mr. RICE: There is no charge for sewers by the month. Water in most municipalities is metered. That is to say there is an individual water meter on the water pipe entering into every property, and the municipality charges so much per gallon of water passing through that meter. I might mention

here that they usually make a profit on it, depending on the wholesale rate which the municipality has to pay to metropolitan Toronto. Metropolitan Toronto might charge 16 cents a thousand gallons whereas North York will sell it to the consumer at 45 cents a thousand gallons.

Senator SMITH (*Queens-Shelburne*): Do you know what the average bill might be?

Mr. RICE: I can only tell you that in my own case it runs about $14 every three months. That is for a four-bedroom house. That is for water.

Senator HAIG: Could not a municipality just say to a developer, as they do in Winnipeg, "Sewers for your subdivision will cost $10,000, say, and you will have to pay cash". There they make the subdivider pay cash in advance for all these improvements before they are put in. That of course is added to the cost of the home because it is a part of the cost of the whole development of the property.

Mr. RICE: Yes, Senator Haig, you are absolutely right. If you examine our brief you will find listed there many of these things that we have to do, and some of the commissions, such as the Water Commissions and the Hydro Commissions may demand the cash immediately for those services. That is the point I believe we made in our brief where we say that eventually this business of subdividing land will be resolved into the hands of larger corporations and those having considerable reserves of capital.

Senator WALL: Let us suppose that a land assembly scheme involving the installation of trunk sewers, water-mains and everything else were handled by the municipalities under the supervision of the provincial Government with assistance from the federal Government may be paid for on a loan basis, because finally I think the basic principle must be maintained, and that is that the people who will receive the benefit of all these improvements and live in these areas should pay these costs. Certainly it is not intended as a principle that somebody in British Columbia will help pay for sewer installations to be used by people who are going to live in Manitoba. This enterprise of assembling serviced land is becoming a major problem, is becoming a very costly problem, and your inference is that it can only be handled by huge corporations or very large private enterprise corporations to the extent that I cannot buy myself a lot unless I buy it through a private entrepreneur or corporation who in turn tells me that you will pay so much for this land and I want to build a house, you cannot build it yourself.

Mr. RICE: You have hit the nail right on the head, Senator Wall.

Senator WALL: So I should be able to go to my municipality and say, "Look, I want to buy a lot, and the municipality should be able to sell me a serviced lot." That probably is the goal to which we should be aiming, without subtracting from the rights of private enterprise.

Mr. RICE: I believe as we point out in our brief, the municipalities should provide those services, that is what the municipality is created for, to supply the services for the good of all, but we believe they have relinquished those rights maybe due to their inability to handle the problem due to a lack of funds, or maybe they figure if somebody else will do the job let them do it. But the interesting thing is you will notice that a subdivider is paying, in the cost of his land, in some instances double costs such as for engineering, town planning and so forth. A subdivider on purchasing a piece of land from a farmer with a view to developing it must prepare plans which can only be done by engineers or town planners, and these plans must be acceptable to the planning board of the municipality concerned and quite satisfactory to their requirements. In turn the municipality have their own engineers and town

planners who must inspect those plans and do a double job on them, so you will see there are double costs involved in a good many instances.

The CHAIRMAN: I believe we have about exhausted the information we can obtain from our two witnesses from Toronto. I want to thank them most cordially for the contribution they have made and I feel they have given us some excellent food for thought. The question that Senator Wall was bringing up is a bit too long and complicated to discuss at this meeting today.

I now ask Mr. Bates to present the brief that he has prepared.

Stewart Bates, President, Central Mortgage and Housing Corporation, called:

Mr. BATES: Gentlemen, you have been listening to the brief of the Metropolitan Homebuilders' Association of Toronto, whose position I think is something the same as mine. I must say that 37 per cent of the housing being built in Canada today is being concentrated in metropolitan Toronto.

(*See note at conclusion of Mr. Bates' evidence.*)

Senator CRERAR: No wonder it costs $5,000 an acre.

Mr. BATES: I am not saying you should give undue weight to the evidence of my predecessor here a few minutes ago, but anyone concerned with national affairs as you are, and as I am, cannot avoid the problem that arises when 30 per cent of growth is taking place in one city alone.

(*See note at conclusion of Mr. Bates' evidence.*)

Senator HORNER: It seems out of balance to me. Will the situation continue? In other words, will Toronto be able to maintain jobs for the people to occupy these homes? That is the sort of thing that concerns me.

Mr. BATES: Gentlemen, I think your problem is exactly the same as mine. This is the essence of the thing you are considering. Most of you are older than I am as Canadians, but I know that we have almost 4 million houses in Canada and that we have 6 million children at school. It will not be too long before they are going to marry and they will require at least 3 million homes. I don't know how you gentlemen felt in the twenties or thirties, but the fact is that the housing stock in Canada must almost double in the next 15 to 20 years. This you must accept. Whether it will be Toronto that will grow to that extent or whether there should be three new cities of a million population each, I don't know. That is not my problem. I believe the most important consideration confronting Canadians is that we have 6 million children at school, and 3 million families to be housed in the future.

The CHAIRMAN: And the children have to be educated.

Mr. BATES: We are educating them now. There is a housing stock of 4 million, of which a very large percentage is over 50 years of age. Some are decrepit and rat-infested, and on top of this we have 3 million new families that will have to be housed very soon. As I have said, this is the essence of the national problem.

The CHAIRMAN: Before you proceed with your brief, Mr. Bates, I will take it upon myself on behalf of all present to thank you most profoundly for the dramatic way in which you have placed this problem before us. I am sure that a great many of us did not realize the seriousness of the situation before you spoke.

Mr. BATES: The problem in Winnipeg, for instance, is a basic problem. It does not only exist in Winnipeg. It exists right across this whole country. We must almost double the housing stock to take care of our school children in the near future. Regardless of what immigrants come in or what happens, in the next 20 years we will have to provide for our own children who are

now at school. They will have to be housed somewhere and somehow, and they will have to be housed at a price. I don't think we should look, gentlemen, at the kind of country we knew 20 years ago where all across the Prairies the services were laid out for years in advance. We had a bank of sewer and water services, and so on. That bank broke and a good many municipalities during the depression could no longer afford to carry on. The fact is the bank was there, but there is no bank of services anywhere in Canada now except in one or two communities in the Prairies where they still have sewered lots laid out.

You could have three new cities of a million people each or you could add them on to the periphery of existing cities. Whatever happens, it will cost money to lay out the necessary services to house these people. You won't exaggerate anymore than I hope I would—although I am a prejudiced witness—that housing is going to be the most important part of this. It is not. It is going to be one part. Capital must be found to develop the resources and create jobs for our people. We talk about the supply of money for housing purposes being short. Well, it will be short as long as we have 3 million families to house. The supply of capital generally will be short.

Senator ISNOR: Just what do you mean by 3 million?

Mr. BATES: There are 6 million children at school, Senator Isnor. I am only saying that I assume most of them will be getting married.

The CHAIRMAN: That is a proper assumption.

Mr. BATES: That will mean 3 million families. Don't forget, we have 6 million children under 18 years of age. If they get married at the same age as young people are now marrying—20 and 21—it will not take long before they will be into the housing market.

Senator ISNOR: In other words, you are saying that at our present rate of house-building we will be 30 years catching up to the demand?

Mr. BATES: Be careful now, senator.

Senator ISNOR: Follow it through and see if I am not right.

Mr. BATES: This year we will build in Canada—I don't mean Central Mortgage but the people of Canada—150,000 houses at least. If you keep going at that rate you just about keep up with the children coming out of school. On top of this you have a million houses over 50 years old. You have some rat-infested dwellings and you have slum areas.

Senator HORNER: You must remember that old people do not live for ever and they will be leaving some very good houses.

Senator LAMBERT: The mortality rate has to be taken into consideration.

Mr. BATES: I am taking that into account. Death is inevitable but birth isn't.

Senator CRERAR: Granted that houses may be 50 years old, does that mean they should be replaced?

Mr. BATES: My house is 55 years old, Senator Crerar, and it must not be replaced for a long time.

Senator CRERAR: In 1951 I spent a couple of months in England in a house that was built in Cromwell's time.

Mr. BATES: That is a different country.

Senator HAIG: Houses will last a hundred years.

Senator SMITH (*Queens-Shelburne*): I hope that Mr. Bates will not lose the trend of thought he was developing so nicely.

Senator HAIG: I think Mr. Bates is right in his figures.

Senator CRERAR: I might have left a bit of a wrong impression. I know some houses in Winnipeg that were built 60 years ago and they are still very

comfortable homes. They have sewer and water service, electricity and everything else. I think those houses may be good for another 40 years.

Mr. BATES: This I could not deny, senator. I live in a house that is 55 years old, but one hundred years from now I cannot say what will happen.

Senator CRERAR: But you did not mean that houses fifty years old should be replaced?

Mr. BATES: No, but you have only to go down town in Ottawa, Montreal, Toronto, Winnipeg or Vancouver, and you will see what I mean. You know quite well what I mean.

Senator PRATT: Can your organization anticipate what number of houses a year will be built over a period of years? It stands at 150,000 new houses now?

Mr. BATES: This year it will be 150,000 new houses.

Senator PRATT: In the next ten or fifteen years, say, could you give us what would be the progressive rate of house building, the increase year by year over a period of years; has that been calculated, according to the general trend, I mean?

Mr. BATES: Yes, the Gordon Commission covered that a year ago, senator. 150,000 units, this is what we are doing this year, and we have to face up to the families coming out of school, and leaving aside the whole question of slums, renovation, urban re-development. This is one part of the total subject. I have read through seven volumes of evidence, senator, and have not looked at new urban re-development; leaving that completely out you must have something like 150,000 as a very minimum. If you are going to replace stock you must have more than this in the next fifteen to twenty years, because you have got four million houses and three million new families coming in on top of this.

Senator PRATT: An average of 150,000 a year plus the possible increase that is anticipated?

Mr. BATES: An average of 150,000 a year is not going to leave you with a lot of vacancies. Let me put it that way.

Senator WALL: And will not handle the problem of re-development?

Mr. BATES: Re-development, no. This has been set out in the Gordon Commision, the figures are there, if any gentleman wishes to look at them.

Senator HAIG: You mean that we as a committee in making our recommendation should always keep in mind that 150,000 Canadians will always be buying houses in the future?

Mr. BATES: More—the very least.

Senator HAIG: That does not include immigrants coming into this country or anything like that, though?

Mr. BATES: No. I would like to go back to the initial statement. You have six million children at school under eighteen years of age. It is true that some of us are going to die, but our death rate is not increasing as fast as the birth rate, and this addition is in front of us, it must be faced, and whether it is on the periphery of Toronto, Winnipeg, Vancouver, Shelbourne county, does not matter, it will be there, it will be somewhere, and this is the essence of perhaps the national problem. There is no other country in the world with so large a proportion of its population young children that we know of.

Senator LAMBERT: You are stating the situation in a very general way in giving this figure of six million. Have you adjusted the apportionment of the effort, say 150,000 houses, to the places where it is most needed?

Mr. BATES: No. In metropolitan Toronto this is going to go on. There is nobody directing it. Private enterprises go into the periphery of Toronto,

people leave the farms, and immigrants come into Toronto. That stands at 37 per cent. It is there. This is the heartland of North America.

(*"See note at conclusion of Mr. Bates evidence"*)

Senator LAMBERT: I am not disputing the need, but what I am asking for is more convincing evidence of the efficiency of the methods that are being employed to meet the need. In other words, we receive all sorts of representations from people who are engaged in the business of building. They also come in contact with the Central Mortgage and Housing Corporation. You probably co-operate with them in building houses, but you do not initiate the steps that are taken to meet this need. I think that is the real crux of the thing. I am thinking about the efficiency of the operations that are required to keep pace with the social development of this country. I think there needs to be some microscopic work done on these figures to show just where the need is. If it is going to be centered in Toronto, Montreal, or Winnipeg, then I think something very much different in the way of an approach to the problem has got to be adopted by Government auspices, either federal or provincial, because it is presenting an absolutely undesirable pathological growth, if you like, in our balanced economy.

Senator HORNER: Would you recommend a survey of the whole country?

Senator LAMBERT: Well, I think there has to be something more intensive done, and I think the best thing to do is to deal with it at the local level. I think the city of Toronto and the province of Ontario should assume some responsibilities in connection with this great growth in an endeavour to meet the practical need of the problem, instead of coming down here and saying they need so many millions to build houses. I think the intensive work really should be done on the ground.

Senator PRATT: Concentration of the population depends entirely on the industrial development taking place.

Senator LAMBERT: Not entirely.

Senator PRATT: I can well imagine a committee sitting down years ago in the United States talking about the same problem in New York when possibly it had a population of 1½ million people. The growth took place, and nobody under heaven could surely plan for a city like New York; its growth came about as a natural sequence of the development of the nation, and I think there is no other path for Canada to follow.

Senator LAMBERT: It is not altogether a question of industrial development, but one of immigration and its consequent social development. In other words, colonies of people come here, and not more than six months later they tie together in some part of say Ontario or Alberta because it is socially desirable for them in their mind to do so.

The CHAIRMAN: Gentlemen, we asked Mr. Bates to come here to give evidence, and I think we should confine ourselves to the taking of the evidence, together with his statements and questions on them.

Senator ISNOR: I should like one point cleared. Has Toronto, with 37 per cent, a greater growth than Montreal?

(*"See note at conclusion of Mr. Bates' evidence"*)

Mr. BATES: Oh, vastly.

Senator ISNOR: Well, that is not going to be your trouble in regard to house building.

Mr. BATES: Percentage wise? Well, maybe we are speaking about something different. I am speaking of percentage wise. This is undoubtedly so.

Senator ISNOR: I asked you a little while ago the number of units built by population.

Mr. BATES: You mean just the number of units built?

Senator ISNOR: I am referring to page 19 of your booklet entitled "Canadian Housing Statistics." Under the column "Total Dwellings", the figure for Montreal in 1956 is 420,901, and for Toronto it is 348,677.

Mr. BATES: Senator, I am looking at a different report than you are, but those figures are borne out. The absolute number of units in Montreal is greater than the absolute number of units in Toronto, but the percentage of growth in Toronto is prodigious compared to any other part of North America.

Senator LAMBERT: Quite apart from building units altogether?

Mr. BATES: Yes.

Senator ISNOR: From a population point of view, is not Vancouver making strides?

Mr. BATES: Yes, they are making great strides. But I get back to the point that 37 per cent of the total house building activity in the country is in Toronto. That is including areas like Etobicoke, Scarboro and York.

(*"See note at conclusion of Mr. Bates' evidence"*)

Senator ISNOR: I don't want to press this matter unduly...

The CHAIRMAN: We have it on the record; perhaps it does not add anything.

Senator LAMBERT: But it is very important from the point of view of total expenditure.

Senator ISNOR: We have to take not only the picture in Montreal or Toronto, but the whole of Canada into consideration. The question of industrial growth comes into it. Are you going to do for one section of Canada what you will not be able to do for other sections? We know that the population in Ontario, as represented by wage earners, is something like 35 per cent of the whole, that Quebec is 32 per cent, and my part of the country is about 9 per cent. The point is, are you going to do for Montreal and Toronto what you can't do for Senator Smith's section of the country? It seems to me that is what you have to consider in your report. We want some information as to whether you can give us the over-all picture, and not keep talking about the growth in Toronto and what you will have to do for Toronto.

Br. BATES: What I have tried to do, senator, is to tell you what the situation is; I have not passed judgment on the fact that Toronto has 37 per cent of the total housing starts. This is a fact, and it is quite clear in the report.

(*"See note at conclusion of Mr. Bates' evidence"*)

Senator ISNOR: You are giving us a solution to the housing problem in years to come, are you not?

Mr. BATES: Yes. But whether three million people settle in Halifax, Winnipeg or Toronto, I would not know. This will result from a multitude of complicated social, political and economic factors.

Senator LAMBERT: These facts and data come to you. You do not go out for them?

Mr. BATES: No.

Senator LAMBERT: In other words who initiates the demands for house building? Does Central Mortgage stand back ready to supply certain facilities?

The CHAIRMAN: They come from people who want the houses.

Senator LAMBERT: Do you supply that, or does the municipality or the builder supply it?

Mr. BATES: No. They first go to our approved lenders, which are the banks and insurance companies; they go to them wherever they happen to be. If they can't get funds from approved lenders, they come to us. We are the third removed from the potential buyer.

Senator LAMBERT: The information which you have just given us, contained in that report, is derived through applications made to the Central Mortgage and Housing Corporation for guaranteeing the loans.

Mr. BATES: We are giving you the figures of all loans, whether through approved lenders, or from other sources; we are giving you the total figures on house building.

Senator LAMBERT: What I am trying to get at is an analysis of the prospect of 6 million children coming along and being in need of housing. The actual need is transmitted to you through various channels?

Mr. BATES: Yes.

Senator LAMBERT: And I take it they are mainly commercial channels?

Mr. BATES: That is right. There is very little public housing in Canada; that is being done by municipalities, provinces and ourselves. It is insignificant, compared with the figure of 150,000 houses.

It might amount to 3,000 or 4,000 this year.

Senator LAMBERT: Of course there is provision for individual application in the act?

Mr. BATES: Yes. But whether people happen to go to Halifax or some place else, is a matter for their free choice.

Senator LAMBERT: It is like any other business, the need is reflected in the market and the demand.

Mr. BATES: Yes.

Senator LAMBERT: You are at the other end?

Mr. BATES: We are at the other end. If there happens to be any place in the country where the regular lenders do not choose to make loans, we may be giving a bigger proportion than usual. For instance, in smaller communities where private lenders do not care to lend, our proportion there will be higher. But we are always in the residual position, never initiating.

Senator CONNOLLY (*Ottawa West*): In other words, if a problem is local, it does not make it any less national. You describe the Toronto area as the heartland of Canada. I think we here in the capital city would dispute that, and probably Montreal would question it too.

Mr. BATES: I was thinking of the area from Montreal through Kingston, through Toronto, Ajax, Oshawa, Hamilton down to Windsor, as really central Canada; this whole area is becoming integrated as a single region. Toronto is almost joined up with Hamilton; this is apparent if you drive through the area. The old metropolitan Toronto concept is not sufficient to meet the needs of the greater area which stretches east all the way to Ajax.

Senator CONNOLLY (*Ottawa West*): It is the St. Lawrence basin you are talking about, as an area.

Mr. BATES: Yes. This is reflected across the border, from Cleveland around to Chicago. This is what I meant by the heartland of Canada, not the city of Toronto.

Senator CONNOLLY (*Ottawa West*): I would hope not.

The CHAIRMAN: I suggest, Mr. Bates, you proceed with your statement.

Mr. BATES: This statement was put before you, because, after looking at the evidence that was given in the earlier committee meetings, it was apparent that practically nothing was said about the subject of urban redevelopment. Our urban areas are actually quite old in many respects. This is a new country, but we have within it urban areas quite old. Some of them are good, some of them are run down. This is what we wish to draw to the

attention of the committee. It was another aspect of the national problem, and the National Housing Act, that should come to your attention.

There is one subject, however, about which very little has been said during the course of the committee's sittings. I refer to the subject of urban re-development. The speech from the Throne last May stated that the Government was ready to cooperate fully under the authority of the National Housing Act in further projects for slum clearance and urban re-development to improve the cities and towns in Canada.

I feel that I should be lacking in my duty if I let your hearings draw to a a close without first emphasizing the problem which is facing many of our cities and then attempting to describe a little of what can be done under the present National Housing Act to implement the federal Government's policy.

The last fifty years have seen Canada grow from an extremely sparsely populated, predominantly agricultural country, to a thriving Dominion of some 37 million people. In that period we have become a nation of city dwellers. In 1901, 37% of our population dwelt in the urban areas. In 1957 that percentage had risen to about 65%. There is every prospect that this trend will continue. It is estimated by the Gordon Royal Commission that by 1980 80% of our population will dwell in our cities.

Since the war, about 1,200,000 houses have been started. In spite of this great addition, many of our people are still living in deplorable conditions.

It seems difficult to believe, but nevertheless true, that here in the year 1958, with a standard of living as high as any other nation on earth, we do, in fact, possess an immense proportion of substandard housing. Of the four million housing units which exist in Canada, about one million are more than 50 years old and half a million are in need of major repair. Add to this the fact that we have not got enough houses and you will appreciate that we have an immense housing problem in this country. Almost 8% of the total families in Canada do not have a home of their own. In our cities alone, almost one in every eight families do not possess self-contained housing accommodation.

Simply put, the task of Central Mortgage and Housing Corporation as the federal Government's housing agency, is to attempt to create sufficiently favourable circumstances that decent shelter is provided for our present and future population. This requirement has no geographical, ethnic or economic boundaries. It is a problem which faces every part of Canada. Our approach to this problem has got to be, in essence, a local and sympathetic one. You can visit any one of our major cities and find run-down, obsolete, rat-infested dwellings which are still being occupied by families who are as much a part of that city as the citizens living in the ranch style bungalows on its outskirts.

It is regrettable that such conditions exist, but a great deal can be done. The facilities for doing it are already provided under the National Housing Act.

Section 23 of the National Housing Act provides for federal financial assistance to municipalities for urban redevelopment. This section has lost something of its old rigidity. Three years ago if we cleared an area of housing in the centre of a city it could be done only on the condition that it was replaced with new housing. This provision no longer exists. We can clear an area of housing in the centre of a city and have it replaced by commercial or industrial development. In other words that area now can be used for the best purposes, for present needs, not necessarily for housing, but for the best purposes.

While the Act certainly imposes an obligation for rehousing displaced families, the legislation recognizes that cities change as human beings do—that what was once a fine residential area, eminently suited to housing people of a city, may now be one of the finest commercial or industrial sites. Moreover, Section 32 permits private enterprise to work in partnership with the municipalities in comprehensive programs of urban redevelopment.

Under such programs, the Federal Government is ready to pay part of the net cost of acquiring and clearing a redevelopment site and a substantial part of the cost of constructing and operating rental dwellings for former residents of the area.

It is paradoxical that we have discussed, in this Committee, the shortage of serviced land at a time when hundreds of acres in our major cities are occupied by run-down, substandard and decayed dwellings. Like a vicious disease this blight is spreading. It does not stand still, it will not stand still and it will not shrink by itself. Admittedly, little blobs of redevelopment are appearing in our cities every day. Every time private interests pull down some substandard dwellings and erect an office block this, in itself, is an example of redevelopment. But if our cities are to become worthy of the standard of living which we have come to regard as our right, this redevelopment has got to be done by the concerted effort of the people, probably through their municipal governments.

The National Housing Act, in providing for assistance for urban redevelopment, is designed to allow local people themselves to control change in their cities. Once local initiative decides that slum clearance should be effected, the Federal Government is ready to help with both advice and financial assistance.

Considerable discussion has taken place during the Committee hearings on a subject which is exercising many of our minds—the subject of low cost housing. I should like to suggest that an equally important subject is "high cost housing". When I refer to high cost housing in this context, I am not thinking of the expensive dwellings which are gracing so many of our cities. It is my considered opinion that the term "high cost housing" can truthfully and logically be applied to the slums which infest every one of our cities.

Capital costs and capital values are not the sole measurement of cost. Walk through any of our slum areas in Toronto, Vancouver, Montreal, St. John's, Newfoundland, Halifax or Saint John, New Brunswick. Take a look at the inhabitants who dwell in them and take a look at the conditions under which they live. The intrinsic value of one of these dwellings may be measured in a few thousand dollars.

The true cost of the existence of that dwelling has to be measured in many, many thousands of dollars. The cost of the fire brigades, the cost of juvenile delinquency, the loss to the community due to warped mental outlook, broken marriages, disease, traffic congestion, welfare services, these are the more obvious costs to the municipal entity in which the slums exist.

The National Housing Act already contains facilities for providing assistance for clearing our slums. I should be grateful if you would bear with me while I repeat the sections and facilities which provide for just such assistance.

Section 16—of the National Housing Act contains facilities for the acquisition of existing property by private companies with a view to rehabilitating these properties and renting them at a low rent. Unfortunately, practically no advantage whatever has been taken of this part of the National Housing Act.

Of course, great advantage has been taken of the limited dividend provisions of this Section, but the item I have referred to has been almost unused.

Section 23—of the National Housing Act provides for federal assistance to municipalities in acquiring slum areas and clearing the sites. This is done, of course, with the full cooperation of the Provincial Government. The assistance given is 50% of the cost of such acquisition and clearance. The remaining 50% is expected to be provided by the municipality with or without the assistance of the Provincial Government.

Unfortunately, only four of our cities have taken advantage of these facilities. The cities concerned are—

Toronto: in which two projects have been started during the last eight years. I think in Regent Park South we are doing 730 units and in the St. Lawrence Heights we are doing 1,020 or some such figure. This is one of the cities I am handing a little bouquet out to here. We are doing about 2,000 units.

Montreal: The site for the Jeanne Mance project has been cleared. This was started last year and it will amount to 800 units when it is completed two years from now.

St. John's, Newfoundland: This one is currently under way and we must have 160 units by now. Relatively speaking, this is a high proportion for a small area.

Halifax: They have just started the clearance of a slum site, and there will be about 300 units.

So our total performance under section 23, if you add together the total number of units, comes out somewhere in the region of 2,500 units.

Section 36—of the National Housing Act provides for 75% of the capital cost of erecting low rental accommodation by a federal-provincial partnership. This section of the Act can be used for rehousing tenants of former slum areas, where such area has changed its use. The remaining 25% of the cost is provided by the province.

There has been much greater activity under this Section of the Act than the others I have mentioned. Up to the end of 1957 54 projects had been constructed in 36 cities and towns. The distribution, by province, of these projects is as follows:—

Newfoundland	3
Nova Scotia	1
New Brunswick	4
Ontario	41
Saskatchewan	3
British Columbia	2

Altogether 5,845 rental units had been constructed up to the end of 1957.

Part V—of the National Housing Act provides money for urban renewal studies to any city desirous of carrying out such a study. These studies can clearly define the areas of decay and allow the drawing up of a proper and methodical plan of redevelopment.

In this country we have 50 cities with a population in excess of 25,000. So far, 14 cities have taken advantage of grants for urban renewal studies.

These cities are—Halifax, Saint John, Moncton, Kingston, London, Toronto, Hamilton, Windsor, Sarnia, Winnipeg, Saskatoon, Regina, Trail and Vancouver.

I do not think these things have been spelled out publicly at any time in the past. This accounts for my using this opportunity of meeting with you to have them put on public record.

It will be seen, therefore, that the means to attack the problem of slum clearance already exists. We, at Central Mortgage and Housing Corporation, can do nothing to force people to do these things but, at the same time, I feel that I should be remiss if I did not put on record that such facilities do exist.

I should like to express the hope that municipalities would seek to acquire a greater knowledge of the facilities. Our Branch Managers, our officials in the Regional Offices and our staff at Head Office are fully equipped to be able to help, advise and guide these people. I refer to municipal officers and officials or elected representatives. We are endeavouring to train a staff which can sit down with any group of elected representatives or officials in any

municipality to discuss this with them. We brought our field staff to Ottawa for a six-weeks training course, and they are now available all across the country to discuss this locally.

No housing program in Canada can ever be an unqualified success unless we are substantially reducing the areas of our slums.

The CHAIRMAN: Thank you very much for the presentation of this brief.

Senator HORNER: We had a witness who suggested that one answer to our housing problem would be to loan money on the purchase of older houses. Could money be loaned under the National Housing Act for this purpose?

Mr. BATES: If someone wishes to buy an old house he cannot get a loan for this purpose under the National Housing Act. N.H.A. loans are available only on new houses. If a person is in an old house and he wants to do a redevelopment job on it he can get a home improvement loan through the banks. These loans by the banks are backed by Central Mortgage so that the banks will not suffer any loss. I believe that under section 16 of the Act old housing can be taken over by a limited dividend corporation and redeveloped, but there has been no case of this in my time with the corporation. I think there was a case about 10 years ago. To answer your question directly, Senator Horner, my reply is that you cannot sell an old house and get an N.H.A. loan on it.

Senator WALL: With regard to section 16 of the Act, let us assume that 20 public-spirited individuals wanted to do something about redeveloping a certain part of their city and they put up $1,000 each and organized, let us say, a Canadiana Enterprises Limited. Say they want to purchase a block of old homes to rehabilitate and rent at a low cost. What are the specifics? Why, in fact, has nothing been done under section 16 in this regard?

Mr. BATES: Senator Wall, since I came to the Corporation, which is almost four years ago, there has never been such an application.

Senator WALL: Let us assume that we have $20,000 collected by 20 individuals who organized themselves into an enterprise with a view to doing a service to their community. What will the N.H.A. do for them, and how can their plan be furthered under section 16 of the Act?

Mr. BATES: Do you know this section?

Senator WALL: No, I must confess I don't.

Mr. BATES: Section 16(1) reads as follows: "The Corporation may, on behalf of Her Majesty and with the approval of the Governor in Council, make a loan to a limited-dividend housing company for the purpose of assisting in the construction of a low-rental housing project or in the purchase of existing buildings and the land upon which they are situate and their conversion into a low-rental housing project."

In other words, Parliament made it clear to this Corporation that section 16 had two purposes. One was to develop new low-rental housing, and the second was to develop existing housing on the land on which it is situated.

The question has never come up in my time. Mr. Secord, you have been with the Corporation 10 years. Would you care to answer Senator Wall's question? You may know of cases that have come up, and whether our requirements are stringent. It has not come to my attention in four years.

Senator WALL: Let us be practical. Say there is a block of 10 old houses that look dilapidated, some which might be torn down and some which might be rebuilt. And let us say there are these 20 citizens who want to do something about this and they are going to put in $20,000 to do this as a service, and they are satisfied to get 3 to 5 per cent on their money. That is all they expect.

Mr. BATES: You mean, what are the procedures?

Senator WALL: What is an organization able to do with this whole problem?

Mr. BATES: Would you care to answer that, Mr. Secord?

Mr. SECORD: We consider an application from that company the same as we would from any other company wishing to build. At Prince Rupert there was an old army building used during the war, and that building was purchased by this group which put up ten per cent, and got a 90 per cent loan for rehabilitation, and use of that was limited to its operations.

Senator WALL: So if they put up ten per cent is that for the original building or for the re-developed building?

Mr. SECORD: Well, they would have to put up ten per cent of the total price, and have to show they have the facilities to buy that building first.

Mr. BATES: The question was only asked of me once by the Mayor of Halifax. There were some areas in the city, and he wanted to take up little pieces of it, and asked if section 16 could be used for this purpose, and I said that it could. This was the only occasion the question was ever asked.

Senator WALL: So that when you speak of a low rent, there may be a moral restriction, or is there a statutory restriction?

Mr. BATES: There is no statutory restriction, there is a contractual restriction which is really defined by Government policy. People coming into these projects should be people whose incomes are under the lowest third in that particular community, wherever it happens to be. It is different in St. John's, Newfoundland, for instance, from Toronto. This is a contractual obligation, and we have instruction from the Government as to what constitutes low-income families.

Senator WALL: In other words, this section 16 would permit a benefactor of the public to invest a certain amount of his money into some old building which could then be rehabilitated; the Government would provide them with 90 per cent, and if the whole project seemed successful he could provide then a service to the community through this section?

Mr. BATES: Yes, and we enter into a contractual arrangement with them. We say, "What are your costs, which you must prove to us?" In the case of old buildings I suppose the cost-plus improvements apply. We say, "What are your operating costs which you must prove to us?", and if it is five per cent of his equity this determines the rent, and we take these rentals every year in every limited dividend operation, and these rentals define the kind of people who can come into it.

Senator ISNOR: It is not quite as simple as that, is it Mr. Bates? Does not the property owner come into the picture and have the say as to whether he or she is willing to sell to the municipality, to enter into such a scheme?

Mr. BATES: You are speaking of an earlier stage before the property is acquired?

Senator ISNOR: Yes.

Mr. BATES: I think Senator Wall is talking about someone who owned the property. If somebody doesn't want to sell a piece of property, nothing can be done about it.

Senator ISNOR: Expropriation may take place as far as the city is concerned, and then pressure is brought to bear by a group saying that they do not want to move, and that perhaps they have lived there for forty years. Has that not been a stumbling block on more than one occasion to your housing projects?

Mr. BATES: I think maybe we are thinking of something different. Are you thinking of properties being expropriated to be demolished? This is a different subject from that which Senator Wall has raised.

Senator ISNOR: Perhaps that is so.

Mr. BATES: Senator Wall was talking of a building that somebody would take over and do a conversion job on by private enterprise.

Senator WALL: Seven or eight houses.

Mr. BATES: This would be done by private enterprise. I think, Senator Isnor, you are thinking of something else, are you not?

Senator ISNOR: Possibly so.

Senator WALL: Probably Senator Isnor is thinking about the problem that would emerge if there was an urban renewal study, as there was in Winnipeg. They took a section of Winnipeg and said, "Now, we think this is what should happen." But then the problem arose as to how they were going to acquire all that property or regulate the use of all the land holdings, and so on, in order to have that study come to a sort of respectable fruition. Is that not going to be the problem?

Mr. BATES: I think that is probably what Senator Isnor had in mind, and it is a problem, of course. A city has powers of expropriation, and if the council really wants to do a re-development job, and perhaps drive a highway through the city, they can do it, assuming public opinion will go with them. I assume you are having in mind the ordinary democratic process of objections, are you not.

Senator ISNOR: Mr. Chairman, I think this is a very fine brief, and to my way of thinking it is the best that has been presented to us. It has given us a clear picture. I am just wondering if we should go a step further in our thinking and ask for Mr. Bates' comment on a suggestion that was just made when the N.H.A. act was first introduced, in 1938 I think, that housing might be undertaken in a similar way as insurance is sold and guaranteed by the Government or its agent. Did Central Mortgage and Housing ever consider such a plan?

Mr. BATES: Is this not what the 1954 act did? The amendment of 1954 had brought the federal Government into the position of an insurer of the loans made on housing by the banks and lending companies; they became an insurance agent in 1954.

Senator ISNOR: Except that the individual builder still had to put up a certain amount.

Mr. BATES: He does not have to put up so much. If he had there would not be so many builders in this country.

Senator ISNOR: You have never considered the moral risk at all?

Mr. BATES: I do not think I am getting this question really right. Would you frame it again, please? What do you think is the builder's problem here?

Senator ISNOR: I was wondering whether you ever gave consideration to the financing of houses by Central Mortgage and Housing Corporation in the same way as insurance is sold at a moral risk?

Mr. BATES: No insurance company ever does anything on moral grounds. I just do not understand.

Senator SMITH (*Queens-Shelburne*): I think Senator Isnor wants to know whether or not you would give consideration to instituting the house building industry such as the Government has done in the annuity business.

Senator ISNOR: Thank you, I think that is pretty close to my question.

Senator SMITH: In other words, the Government gets into the business of buying and selling houses.

Mr. BATES: At one stage, Senator Smith, this Corporation owned 57,000 houses.

Senator SMITH (*Queens-Shelburne*): In other words, the federal Government is getting into the business of building and selling houses.

The CHAIRMAN: Now you are talking about policy decisions.

Mr. BATES: At one stage the Government owned 57,000 houses, but we now have the number down to 14,000; the Government policy has been to get rid of them.

Senator SMITH (*Queens-Shelburne*): That is wartime houses?

Mr. BATES: Wartime houses, defence construction houses and so on.

Senator CONNOLLY (*Ottawa West*): Mr. Chairman, I would like to talk for a moment about a matter that Mr. Bates raised in his memorandum submitted to us this morning. Perhaps I can describe it as the uneconomic use of urban properties in some of the larger municipalities, properties that are run down, whether for housing or industrial use. The private enterpriser buying up areas, tearing down the existing buildings, and replacing them sometimes with very fine living accommodation, perhaps even superior to anything in the area.

Mr. BATES: We have it in Ottawa.

Senator CONNOLLY (*Ottawa West*): You see it in Ottawa on streets which a few years ago were regarded as purely commercial streets.

Mr. BATES: Yes.

Senator CONNOLLY (*Ottawa West*): That is going on in some of the larger centres like Toronto and Montreal, sometimes at very great cost; although, usually there is a contract ahead of time whereby most of the space in these buildings are rented, and it becomes a feasible proposition.

Despite that kind of development, I suppose you do find in the metropolitan areas much land that is not being used economically in the interest of the municipality? Is there any possibility of getting the provinces or the municipalities to assess the properties that are not being used economically, with a view to conversion through expropriation or any other means that might be adopted? I ask that question for this reason: as I understand it one finds municipalities are facing increased costs for housing in remote sections, in the suburbs, while the downtown areas are not being economically used. Is there a problem there that the municipalities themselves should make a contribution to right now?

Mr. BATES: This, I think, is very important, senator. It is true in almost all communities in North America, and is not simply confined to Canada. I referred in my statement to Part V of the act. We feel that the urban renewal studies are the most important initial step in getting municipalities and people within them, to look at the best land usage for the downtown areas. This requires a comprehensive study. An excellent example is to be found in Halifax, in the study done by Professor Stephenson on urban renewal study. It shows the good things that can be accomplished, and that the people of Halifax had not dreamed about. This is an excellent example of how urban renewal studies affect the attitude of the mind of every citizen in the city, and the council, and I think it is the only answer we can give. Already 14 cities are doing these studies to see what is the best use for the old areas as well as the new—not a fixed, rigid study, but a broad, comprehensive flexible view into the future.

Senator LAMBERT: The initiative for it came from Halifax?

Mr. BATES: Yes.

Senator **Pratt**: Mr. Chairman, on that point, may I ask whether the money provided for urban renewal studies is a matter of arrangement with the province or the municipality as the case may be?

Mr. **Bates**: We have been putting up 75 per cent of the monetary costs, and in many instances we have added to that substantial personal costs, by way of staff and help.

Senator **Pratt**: That is done by your organization, without charge.

Mr. **Bates**: Yes, without charge. We pay 75 per cent of the monetary costs.

Senator **Pratt**: It is rather odd that more municipalities have not availed themselves of this opportunity.

Mr. **Bates**: Fourteen already have; this arrangement started only two years ago. There was none when I came to the corporation, and now there are 14.

Senator **Pratt**: It is evidence of a very active interest in it.

Mr. **Bates**: Very active.

Senator **Connolly** (*Ottawa West*): Mr. Chairman, may I follow up on the question I asked earlier, and in connection with a question now asked by Senator Pratt? The C.M.H.C. has research facilities available to municipalities that would like to participate in programs for development.

Mr. **Bates**: I would not like to put it that way. We have a small staff; we will pay 75 per cent of the monetary cost—the federal Government does that; and we will try to throw in whatever human resources we can, without promising that we can do the job for them.

Senator **Connolly** (*Ottawa West*): A good plan undertaken under this section of the act might very well result in a more efficient and more economic and perhaps even a more profitable use of land by the municipality.

Mr. **Bates**: Oh yes. Just to mention again the Halifax study, which was completed some eight months ago, the municipality agreed to follow the first phase of the study. I don't know how well you know Halifax, but behind the municipal buildings the Jacob Street area is a very poor, run down area. The houses were taken out for commercial re-development; the people who occupied those houses are to be put in Mulgrave Park, in a new re-development in another part of the city.

This was an area close to the city hall, very old, very run down and poor, which is now being converted to a completely new use, and is set out in the report as the first phase of a re-development study. So here we have a good example of a study that began ab initio, went through the whole process, went through the municipal council, and is in process of development now, and we, along with the city, are doing the Musgrove development area; we have designed the houses and the whole layout.

Senator **Lambert**: That conception originated in Halifax?

Mr. **Bates**: Yes.

Senator **Connolly** (*Ottawa West*): In a measure that is being done in Ottawa under the National Capital Plan, is it not?

Mr. **Bates**: Not in this way.

Senator **Pratt**: You say there is a special federal grant that the Central Mortgage and Housing Corporation can use?

Mr. **Bates**: 75 per cent of the cost—and it comes from the minister. In other words it is in his estimates, it is not something that we do.

Senator **Crerar**: A moment ago you mentioned that the land acquired under these provisions of the National Housing Act are to be put to their most

effective use. Have you any suggestions as to how the land may be made available? What form has that taken?

Mr. BATES: They have taken various forms. It is pretty much of an ad hoc decision on each piece of land. Maybe the land can be acquired only by federal-provincial partnership. The partnership may then agree to sell this land to someone who wants to build a commercial building, it may be that the partnership decides that they have had so much trouble acquiring this land that they are not going to give it up but will lease it maybe on a 99-year basis to an industrial-commercial development.

Senator CRERAR: To make it a little clearer, my question was: have any suggestions come forward as to how this land can be made available other than at exhorbitant prices?

Mr. BATES: Yes. This is up to the partnership. For example, in Regent Park South in Toronto the partnership decided that the land would be used for low-cost housing, so it acquired the land and marked down the cost of it under section 23.

Senator CRERAR: Let me clear up what I have in mind. According to the brief presented in connection with a suburban area in or near Toronto it was stated that the acquisition of a 40-acre tract of land was made at the rate of $45,000 an acre. Have you any suggestions as to how that can be overcome?

Mr. BATES: It is a difficult problem.

Senator CRERAR: Will you agree that there are certain people who would probably corner fresh air and sell it or would try to corner water supplies?

The CHAIRMAN: Mr. Bates need not answer that question.

Senator WALL: On pages 4 and 5 of your brief we have the breakdown of redevelopment facilities which have brought us, as I gather, an end result of about 5,000 or 6,000 units which is woefully small, woefully inadequate, indeed tragic. You have not commented on the reasons of that although I infer that it may be that the provisions are reasonably adequate. Now, what is missing? Is it inadequate public service conceptualization by builders, by people who are or should be interested in this? What is wrong that we have such a terrible record in this area?

Mr. BATES: Well, in the first instance, if you do not have a good urban redevelopment study made so that the people in that community can understand, and see its position, if you do not have that, you have nothing.

The CHAIRMAN: That is your answer, Senator Wall.

Mr. BATES: No public opinion can be created in favour of redevelopment until they can see visually some concept of a changed environment. So this is why we are so anxious to see these redevelopment studies going ahead and we are very encouraged by the fact that 14 are in process, with some completed, in Canada.

Senator WALL: I believe it would not be unfair to say that there is probably not enough money in this business and it is one of the things that suffer thereby.

Senator SMITH (*Queens-Shelburne*): Where did Professor Stevenson come from?

Mr. BATES: The University of Toronto brought him to Canada.

Senator SMITH (*Queens-Shelburne*): From where?

Mr. BATES: The United Kingdom.

The CHAIRMAN: At the last sitting it was suggested that if anybody had any specific question they wanted to ask Mr. Bates that they might submit

them to him in writing. In the meantime Senator Robertson has submitted a list of questions and before we adjourn I would like to have those questions answered.

Mr. **Bates**: The following are the questions and answers.

Question 1.

Senator Robertson asked how is the rate of interest paid on its borrowings from the Federal Government determined?

The rate of interest paid by Central Mortgage and Housing Corporation on its borrowings from the Federal Government is established, according to statute, by the Governor-in-Council.

In practice, this represents the cost of money to the government, plus a small handling charge. This handling charge is decided by the Department of Finance.

Question 2.

Senator Robertson asked what is the present rate of interest paid?

Order-in-Council No. 1958/629, dated 1st of May, 1958, sets out the current rates of interest paid. These are:

(a) On advances made to the Corporation, which are repayable over a period of 20 years, the rate of interest is 4% per annum—convertible semi-annually.

(b) On advances made to the Corporation for the purpose of making loans to limited dividend housing companies, repayable over a period of 40 years, the rate is 4⅛% per annum, convertible semi-annually. The exceptions to these are as follows:

(i) For commitments made prior to the passage of Order-in-Council 1956/466, dated 22nd of March, 1956, the interest rates are adjusted to 3½% per annum.

(ii) For commitments made after Order-in-Council 1956/466, dated 22nd of March, 1956, the interest rates are adjusted to 3¾% per annum.

(iii) For commitments made subsequent to September 30, 1957 and prior to April 1, 1958, the interest rates are adjusted to 4⅝% per annum.

Question 3.

Senator Robertson asked how often is the rate of interest to be paid reviewed:

The rates of interest to be paid are reviewed semi-annually, with effect on April 1 and October 1 of each year. The reviews, themselves, usually take place early in March and September of each year. The reviews are conducted jointly by the Department of Finance and Central Mortgage and Housing Corporation.

Our rates of interest for borrowing from the Government are determined twice a year by consultation with the Department of Finance.

Question 4.

Senator Robertson asked what differential presently exists between the rate of interest paid by C.M.H.C. and the minimum interest rates charged by C.M.H.C. on loans to:

(a) Home owners etc., and for home improvement loans.
(b) Employee rental housing loans.
(c) Limited dividend Companies' Loans.

Before answering this question, I should point out that home improvement loans are not made directly by Central Mortgage and Housing Corporation.

These loans are made by banks or approved instalment credit agencies. The loans are guaranteed by C.M.H.C. upon receipt of a fee consisting of 1% of the loan.

The going rate of interest on home improvement loans and, indeed, on housing loans made by banks and other approved lenders is 6% per annum. By Section 40 of the National Housing Act, loans made by the Corporation are subject to the same terms and conditions as those made by approved lenders. Therefore, the current 6% rate is mandatory.

If the Corporation were to lend at a lower rate than the approved lenders, it would mean that Government loans would be sought in preference to those made by established lenders. Residual lending would then become preferred lending and the Federal Government's mortgage commitments would reach immense proportions.

(a) The differential which presently exists between the rates of interest paid by C.M.H.C. and the rates of interest paid to the Corporation by home owners and builders is 1⅞% per annum. This does not represent, of course, net profit. Corporation loans are invariably made because no other lender would accept them. The reluctance of the approved lenders to accept these may be explained in several ways. One of the most common reasons is that the properties are situated in remote and outlying areas, resulting in excessively high administrative costs. For example, even in urban areas, a commercial lender calculates that his administrative costs amount to between ¾% and 1%. If the bulk of the lender's business was in the remote areas, this percentage would increase considerably.

Likewise, if you are lending on individual housing, for example, as distinct from apartment buildings, the costs of administration are very much higher. The costs to administer houses in remote areas in the country are much higher than to administer the cost of an apartment building consisting of 100 units somewhere in downtown Toronto.

Furthermore, if a loan goes into default, the difficulties of handling the transaction and ultimate resale prove extremely costly.

(b) Senator Robertson referred to "employee rental housing loans." I assume that the Honourable Senator is referring to primary industry loans which are made for the construction of houses by companies. If this is the case, the difference between the borrowing rates paid by Central Mortgage and Housing Corporation and the lending rates charged by the Corporation is 1¼% (borrowing rate 4%—lending rate 5¼%).

(c) Loans to limited dividend companies carry an interest differential of ⅛ of 1% per annum (borrowing rate by C.M.H.C. 4⅛%—lending rate 4¼%).

Question 5.

Senator Robertson asked, in view of the present re-conversion Federal financing, approximately what rate of interest will C.M.H.C. have to pay on its borrowings after the next review date?

At this date, the Federal Government has not indicated, in any way, to Central Mortgage and Housing Corporation, what rates of interest may be charged on future borrowings.

Question 6.

Senator Robertson asked if the same differential as between costs of borrowing and rates charged on loans is maintained in the future as it has in the past, what would the interest rate be to be charged on:

(a) Home owners, etc., and for home improvement loans,

(b) Employee rental housing loans,
(c) Limited dividend companies' loans.

Bearing in mind the answer to question 5 when I said, in effect, that I had no indication from the Federal Government on possible future interest rates, it is not possible to answer Senator Robertson's question. We have no indication what the present Government is going to charge us on future rates.

Senator LAMBERT: The Bank of Canada is represented on your Board, is it not?

Mr. BATES: No, Senator Lambert. It was at one time but not now.

Question 7.

Senator Robertson asked, in view of the probable increase in the rate of interest that C.M.H.C. must pay in the future for their borrowings, and your 1957 statement that shows almost two million dollars of income over expenditure, would you care to comment on the possibility of C.M.H.C. reducing the differential between interest costs and those charged for loans, while at the same time keeping the financial affairs of C.M.H.C. on a solid and sound basis?

Could the differential be decreased by ½% or more?

Could the differential be decreased by ¼%?

This is a question which I regret it is impossible for me to answer. I feel that it would not be proper for me to forecast possible increases in the rate of interest since this a matter of Federal Government policy. Even if I had the knowledge of future interest rates, the question would still be difficult to answer without knowing in advance the volume of all loans made by C.M.H.C., the amount of each type of loan and the volume of insured loans which would be made by approved lenders. Moreover, the differential between C.M.H.C.'s borrowing rate and its lending rate fluctuates from time to time. The Corporation has no control over either of these rates. As indicated in the reply to Question 4, the differential must bear a considerable administrative cost.

Senator LAMBERT: Mr. Chairman, I move that we adjourn.

Senator HAWKINS: Before I entertain your motion to adjourn I would point out that this is the last hearing and the last witness before this committee with respect to this inquiry. I want to take this opportunity to thank everybody who has participated in it. Sometimes the questions have been long and tiresome and sometimes the answers may have been disappointing, but on the whole I think we have been very fortunate in the presentations that have been made to us both by the officials of C.M.H.C. and those who have appeared before us in a commercial and private capacity.

I do not think we have any apologies to make because somebody who is engaged in house building or in any other activity having to do with housing, has appeared before us and sponsored what he has believed to be in his best interests.

Now, gentlemen, the meeting is adjourned. Thank you very much.

The hearing was thereupon adjourned.

Explanatory Note

During his evidence, Mr. Stewart Bates referred to housebuilding activity in and around Toronto. Mr. Bates referred to 37% of the total housebuilding activity.

This percentage did not refer to the total number of houses built. It referred to the proportion of units built under the Government's Agency Loan plan for small homes. The proportion of total units approved, under this plan, for the Toronto area, up to the 25th July, 1958, amounted to 37% of the total units approved for the whole of Canada.

Up to the 25th July, 1958,—29,154 units had been approved, of which 10,752 were situated in the Toronto area.

A table showing the total dwelling starts across Canada is appended herewith:—

HOUSE-BUILDING ACTIVITY

DWELLING STARTS IN METROPOLITAN AND MAJOR URBAN AREAS

Area	1955	1956	1957	January-April		March		April	
				1957	1958	1957	1958	1957	1958
Metropolitan Areas									
Calgary	3,129	3,742	3,425	433	1,060	90	190	218	407
Edmonton	3,843	3,203	3,320	189	965	16	327	101	541
Halifax	1,314	1,189	842	122	143	25	40	71	59
Hamilton	3,368	3,401	3,264	451	908	119	266	191	408
London	1,415	1,370	1,269	244	621	59	161	129	266
Montreal	22,124	19,168	19,122	3,339	5,186	964	1,180	1,510	2,189
Ottawa-Hull	3,817	4,261	3,824	476	685	52	143	323	398
Quebec	3,359	2,651	1,287	319	237	119	70	114	103
Saint John	299	337	255	46	47	14	6	16	35
St. John's	495	463	206	21	87	—	15	10	43
Toronto	19,622	16,878	17,113	2,870	6,518	926	1,604	1,261	2,274
Vancouver	8,471	8,450	7,539	1,625	3,595	450	913	687	1,365
Victoria	1,546	1,187	1,053	270	470	67	176	94	148
Windsor	1,324	1,397	1,037	271	404	102	106	112	175
Winnipeg	4,926	3,389	2,092	107	559	14	123	69	296
Sub-Total	79,052	71,086	65,648	10,783	21,485	3,017	5,320	4,906	8,707
Major Urban Areas (1)									
Brantford	392	306	213	52	66	13	19	30	39
Chicoutimi-Jonquiere	555	677	506	46	147	7	58	39	79
Ft. William-Pt. Arthur	613	517	694	40	183	8	32	32	137
Guelph	435	341	268	53	129	12	31	26	57
Kingston	605	469	372	66	126	6	43	31	62
Kitchener	1,035	928	786	117	208	27	71	73	81
Moncton	351	409	248	9	29	—	2	9	19
Niagara Falls	559	411	322	84	183	35	59	34	71
Oshawa	827	685	1,084	112	541	22	106	68	275
Peterborough	522	374	474	43	122	7	29	35	82
Regina	1,445	1,011	1,035	28	54	—	4	9	35
St. Catharines	1,138	767	766	111	187	29	81	46	65
Sarnia	767	569	516	103	151	55	57	30	64
Saskatoon	868	990	1,080	35	176	—	10	35	157
Sault Ste. Marine	348	456	550	49	217	—	57	49	159
Shawinigan Falls	337	372	236	34	39	3	5	29	29
Sherbrooke	333	329	210	42	72	8	17	23	43
Sudbury	916	695	543	110	106	23	33	85	64
Sydney	100	245	257	15	29	3	8	8	12
Three Rivers	551	409	442	42	80	8	24	30	48
Timmins	35	23	37	2	—	—	—	2	—
Sub-total	12,732	10,983	10,639	1,193	2,845	266	746	723	1,578
All Other	46,492	45,242	46,053	5,134	6,210	1,085	2,029	3,071	2,895
Canada (2)	138,276	127,311	122,340	17,110	30,540	4,368	8,095	8,700	13,180

Source: DBS.

(1) Includes the fringe areas of centres from 50,000 to 100,000 population.

(2) Excludes Yukon and Northwest Territories.

Committee on (Senate), 195

1958

THE SENATE OF CANADA

PROCEEDINGS OF THE STANDING COMMITTEE ON FINANCE

on the Report of Central Mortgage and Housing
Corporation for fiscal year ending
December 31, 1957.

No. 9

THURSDAY, AUGUST 7, 1958

The Honourable C. G. Hawkins, *Chairman*

REPORT OF THE COMMITTEE

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1958

Extract from the Minutes of the Proceedings of the Senate, Wednesday, June 11, 1958.

The Honourable Senator Aseltine moved, seconded by the Honourable Senator Quinn—

That the names of the Honourable Senators Brunt, Emerson and Thorvaldson be added to the list of Senators serving on the Standing Committee on Finance.

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

THE STANDING COMMITTEE ON FINANCE

The Honourable C. G. Hawkins, *Chairman*

The Honourable Senators

Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Burchill
Campbell
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Dupuis
Emerson
Euler
Farris
Fraser
Gershaw
Golding
*Haig
Hawkins
Hayden
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Pratt
Quinn
Reid
Roebuck
Robertson
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
White
Woodrow—44

(Quorum 9)

**ex officio member.*

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate

TUESDAY, May 20, 1958.

With leave of the Senate,

The Honourable Senator Aseltine moved, seconded by the Honourable Senator Pearson—

That the report of Central Mortgage and Housing Corporation for the fiscal year ended the 31st of December, 1957, be referred to the Standing Committee on Finance for consideration and report.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, August 7th, 1958.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.30 a.m.

Present: The Honourable Senators Hawkins—*Chairman,* Aseltine, Baird, Brunt, Connolly (*Ottawa West*), Crerar, Dupuis, Euler, Haig, Horner, Isnor, Lambert, Leonard, Pearson, Pratt, Smith (*Queens-Shelburne*), Stambaugh, Taylor (*Norfolk*), Turgeon and White.—20.

Consideration of the order of reference of May 20th, 1958, was resumed.

A draft Report, read by the Chairman, was discussed and adopted.

Consideration of the said order of reference was concluded.

At 12.05 p.m. the Committee adjourned to the call of the Chairman.

Attest.

John A. Hinds,
Assistant Chief Clerk of Committees.

REPORT OF THE COMMITTEE

THURSDAY, August 7th, 1958.

The Standing Committee on Finance, to whom was referred the Report of Central Mortgage and Housing Corporation for the fiscal year ending December 31, 1957, report as follows:—

On May 20, 1958, the following order of reference was adopted by the Senate:

> "That the Report of Central Mortgage and Housing Corporation for the fiscal year ended 31st December, 1957, be referred to the Standing Committee on Finance for consideration and report."

Subsequently the Committee held eight meetings and heard evidence from the President of Central Mortgage and Housing Corporation, Mr. Stewart Bates, and other bodies interested in the building of houses. The evidence adduced was sufficient, in the opinion of your Committee, to justify the early adoption of the recommendations set forth herein.

1. Central Mortgage and Housing Corporation

A study of the evidence given by the President of Central Mortgage and Housing Corporation and other witnesses shows that the position of the Corporation is one of major importance to the economy of this country. Your Committee feels that the creation of conditions which will encourage a vigorous house-building programme is one of the prime duties of Central Mortgage and Housing Corporation. At the present time, this duty is, in the opinion of the Committee, being fully discharged.

It is evident that attention is being paid by the Corporation to the requirements of efficiency and economy in the use of public funds. Your Committee feels that the reduction in staff, without loss of efficiency or service, and its consequent saving in money is singularly praiseworthy.

As the interpreter and administrator of the Federal Government's housing policy, under the National Housing Act, Central Mortgage and Housing Corporation is, in the opinion of your Committee, diligently discharging these duties.

The Annual Report for the year ending December 31, 1957, which has been under study by your Committee, is a full and frank statement of the housing activities carried out during the year 1957.

Exhibit 1 shows the various reserves available for Mortgage Insurance, Home Improvement Loan Insurance and Rental Guarantees. From the evidence given on this subject, there appears to be some doubt as to whether the reserve fund for mortgage insurance is adequate or excessive. The Committee feels that a closer study of this fund is warranted. At the same time, it is the opinion of this Committee that an adequate margin of safety must be accumulated before any reduction in the mortgage insurance fee is contemplated.

Your Committee therefore recommends that an actuarial study be made of the Mortgage Insurance Fund, with a view to ascertaining the point at which a reduction in the mortgage insurance fee might be warranted.

2. *Mortgage Insurance on Existing Residential Real Estate*

Throughout the proceedings, frequent mention was made of the desirability of providing home ownership facilities for people of low income. (*See Exhibit 2*) One method by which this could be partially achieved would be to extend the facilities of the National Housing Act to modest existing houses.

Such an extension does not appear to be appropriate at the present time. The Committee feels that Central Mortgage and Housing Corporation should keep this subject under constant study with a view to advising the Federal Government of a suitable time for such an amendment. It is suggested that if and when the time for such an amendment arrives the facilities be limited to home owner loans and that a modest loan limit be applied.

3. *Loans for University Students' Dormitories*

The Committee listened to evidence presented by the National Conference of Canadian Universities of the growing need for providing accommodation to resident students.

At the present time, the Federal Government is facing increasing demands for financial assistance for various housing purposes. The Committee is of the opinion that housing people, particularly those of low income, deserves the utmost priority. To this end, the largest percentage of available mortgage resources, both federal and private, are presently required. The provision of hostel accomodation for universities is both desirable and necessary. At the present time, however, the federal funds available under the National Housing Act are fully required for housing purposes.

While sympathizing with the University authorities in this problem, your Committee does not feel that a recommendation for an amendment to the National Housing Act permitting the use of federal funds for financing such accommodation is merited at the present time.

However, as the evidence given to the Committee was to the effect that there is now no source for borrowing money for the construction of university residences, in the further study of this subject consideration might well be given by the Central Mortgage and Housing Corporation in conjunction with the educational institutions and the provincial departments concerned, to a suggestion that loans on such residences by approved lending institutions be qualified, subject to reasonable conditions, for insurance under that part of the National Housing Act providing for insurance of loans.

4. *Financing of Municipal Services*

Your Committee heard evidence with respect to this matter but is not prepared to make any recommendation on the subject.

5. *Low-cost Housing*

The Committee feels that a proper definition of the terms "low-cost housing" and "low income groups" is appropriate at this time. It is recommended that the following definitions be adopted:—

> *Low-cost Housing*
>
> Any single family dwelling, the cost of which, including structure, land, services or septic tank and well, does not exceed a total cost of $9,000. Such a house must conform to the minimum housing standards for National Housing Act construction. (*See Exhibits 3 and 4*)
>
> *Low-income Groups*
>
> Any family, in any area, whose annual income falls in the lower third of the local income group.
>
> (At the present time, the national average family income at the top of the lower third, amounts to $3,600 per annum.)

Your Committee considers that home ownership for this group of our population should be encouraged as much as possible. A greater provision of houses at a cost not exceeding $9,000 would provide homes for many people of modest income. An example of such a house follows hereunder:

Cost of house and land	$9,000
Down payment	900
NHA loan	8,100
Insurance fee	162
	8,262
Monthly repayments at 6% over 25 years	53.00
Assumed taxes	15.00
Total monthly payment	68.00

At a repayment ratio to income of 27%, a home owner earning $3,022 per annum could afford to acquire such a house.

The Committee heard, with interest, of the plans of Central Mortgage and Housing Corporation to prepare designs for modest dwellings in the remote and outlying areas. It is to be hoped that this work will be extended to encourage a better standard of construction in these areas.

Evidence has been heard on the need for providing low rental accommodation. The Committee feels that the present facilities offered under the National Housing Act are adequate and that amendment for the purpose of extending these facilities is not warranted at present.

The Committee hopes that the fullest possible resources of Central Mortgage and Housing Corporation will be directed toward encouraging the provision of low-cost homes, the expansion of low rental accommodation, and the raising of standards of construction in the remote areas.

6. *Shortage of Mortgage Funds*

From the evidence presented, it is apparent that the flow of mortgage funds during the last few years has been both insufficient and erratic. Concern has been expressed by various witnesses about the future supply of mortgage funds. It is evident that there is a need for a close study of the problem of increasing the supply of mortgage funds and stimulating the sale of insured mortgages.

Your Committee recommends, therefore, that an organization be set up under the leadership of Central Mortgage and Housing Corporation to carry out a close study of this problem. This body would contain representatives of the Bank of Canada, the Department of Finance, chartered banks, life companies and other approved lenders. Its terms of reference should be confined to two aspects:—

(*a*) Increasing and stabilizing the flow of mortgage funds.

(*b*) Stimulating the sale of insured mortgages and encouraging the resultant sale funds back into the mortgage market.

7. *Private Lending in Remote Areas*

Evidence was given which suggested that a reluctance exists on the part of many approved lenders to lend in the remote areas. It appears that, although these loans carry the same guarantee as insured loans in urban centres, the administrative costs and greater difficulty of resale do present greater problems to a lender than loans in the urban centres.

While direct loans by Central Mortgage and Housing Corporation are, of course, available in these areas, the Committee does not consider that the Corporation should provide facilities which can be equally well supplied by a private institution.

Your Committee recommends that Central Mortgage and Housing Corporation initiates conversations with representatives of the approved lenders, in an attempt to influence the lenders to extend greater lending opportunities to the remote areas than exist at present.

8. *Urban Development*

The Committee was impressed by the evidence given of the growing need for slum clearance in many of our cities. Greater use of the facilities available under the National Housing Act will have to be made during the next ten years if this problem is to be dealt with.

From the evidence presented, it appears that municipalities are not taking adequate advantage of the opportunities for financial assistance in redeveloping the substandard areas of our cities.

It is to be hoped that possibly Central Mortgage and Housing Corporation, in co-operation with the Federation of Mayors and Municipalities, will provide more detailed information on the facilities available under the National Housing Act directly to municipal officials.

9. *Co-Operative Housing*

Evidence was given of the success of co-operative housing projects in many parts of the country. Inasmuch as this has provided economical and worthwhile housing, your Committee feels that efforts by co-operative groups to build their own houses should be encouraged as much as possible.

It is suggested that much wider publicity be given to the opportunities for co-operative housing under the National Housing Act. The Committee feels that the method of disseminating this information should be left to the discretion of Central Mortgage and Housing Corporation.

10. *Research into new methods of Construction*

Evidence was given of the initiation of research projects by the Corporation. (*See Exhibit 5*) It is felt that this is to be highly commended. Your Committee would like to express the hope that the utmost priority be given to further research work into finding new methods of construction which will reduce the cost of housing, new methods of sewage disposal, and new materials suitable for construction in the northern areas.

It is hoped that the resources of private industry will, at all times, be sought and that the present close co-operation which exists between Central Mortgage and Housing Corporation and the Division of Building Research, National Research Council, will continue.

Conclusion

The Committee has been impressed by the calibre of the witnesses heard and the quality of the evidence given. In such a complex field as that of housing the present and future population of the country, it is inevitable that differences of opinion exist on the best means of solving the problem.

Nevertheless, your Committee feels that the various organizations engaged in housing activities are to be commended for their effort and enterprise. In Central Mortgage and Housing Corporation, the Committee is of the opinion that the Federal Government has a housing agency of the highest quality. It is gratifying to note that the private interests with whom the Corporation co-operates in housing, building and financial matters hold the organization in the highest esteem. Your Committee expresses the hope that this close liaison and co-operation will continue to flourish in achieving the common aim of improving housing conditions in Canada.

All which is respectfully submitted.

C. G. HAWKINS,
Chairman.

EXHIBIT 1.

RESERVES FOR MORTGAGE INSURANCE, HOME IMPROVEMENT LOAN INSURANCE AND RENTAL GUARANTEES FOR THE YEAR ENDED DECEMBER 31, 1957.

	Reserve for Mortgage Insurance			Reserve for Home Improvement Loan Insurance			Reserve for Rental Guarantees			Totals
	Total to December 31 1956	Year 1957	Total to December 31 1957	Total to December 31 1956	Year 1957	Total to December 31 1957	Total to December 31 1956	Year 1957	Total to December 31 1957	December 31 1957
	$	$	$	$	$	$	$	$	$	$
Fees and premiums received	21,466,846	7,278,911	28,745,757	565,219	306,032	871,251	2,041,026	370,368	2,411,394	32,028,402
Net income from securities	678,982	935,303	1,614,285	15,829	26,432	42,261	152,023	52,886	204,909	1,861,455
Interest earned on mortgages		1,049	1,049							1,049
Recoveries on claims paid				285	1,443	1,728				1,728
Real Estate acquired on claims paid		38,185	38,185							38,185
Profit on sales of real estate		3,792	3,792							3,792
	22,145,828	8,257,240	30,403,068	581,333	333,907	915,240	2,193,049	423,254	2,616,303	33,934,611
Deduct										
Claims paid and legal expenses		38,185	38,185	11,536	40,787	52,323	481,263	131,063	612,326	702,834
Loss on sale of securities							1,900		1,900	1,900
		38,185	38,185	11,536	40,787	52,323	483,163	131,063	614,226	704,734
	22,145,828	8,219,055	30,364,883	569,797	293,120	862,917	1,709,886	292,191	2,002,077	33,229,877

Mortgage insurance in force	$1,425,000,000
Amount insured in respect of Home Improvement loans	$ 4,306,000
Current year's rentals covered by Rental Guarantee contracts	$ 15,250,000

EXHIBIT 2.

CHARACTERISTICS OF LOANS AND BORROWERS UNDER THE NATIONAL HOUSING ACTS.

Range of Borrower's Income $	Per Cent of Borrowers						
	1954	1955	1956	1957		1958	
						1st Quarter	
				Non-agency	Agency	Non-agency	Agency
Under 3,000	0.9	1.0	0.4	0.1	0.1	0.2	0.3
3,000 to 3,999	20.6	22.5	15.4	6.0	11.3	5.7	15.4
4,000 to 4,999	37.9	36.4	35.2	29.1	46.3	26.6	43.7
5,000 to 5,999	20.1	20.3	24.0	27.7	25.8	27.3	23.1
6,000 to 6,999	10.1	9.6	11.8	16.9	9.5	18.3	9.8
7,000 to 7,999	4.6	4.3	5.9	8.7	3.9	9.5	3.4
8,000 to 8,999	2.4	2.2	2.8	4.6	1.3	5.0	1.7
9,000 to 9,999	1.1	1.1	1.4	2.2	0.5	2.3	0.8
10,000 and over	2.3	2.6	3.0	4.7	1.3	5.1	1.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number of Borrowers	26,982	47,728	47,593	29,997	2,269	3,890	3,498
	$	$	$	$	$	$	$
Average Applicant's Income	4,962	5,023	5,312	5,857	5,026	5,962	5,036
Average Family Income	5,382	5,442	5,784	6,356	5,595	6,313	5,700
Average Down Payment (4)	3,084	2,773	3,217	3,929	2,461	3,694	2,263
Average Amount of Loan (5)	9,344	10,022	10,352	10,960	10,108	11,630	10,799
Average Cost of Dwellings (6)	12,335	12,598	13,366	14,674	12,370	15,096	12,850
Average Debt Service to Income Ratio	18.2	18.6	18.3	18.5	19.7	19.4	20.9

Source: CMHC.

(1) Institutional loans only.

(2) Includes agency loans.

(3) Income of head of family only. The income of dependents is not included.

(4) Based on the difference between average estimated costs or for builders' sales, prices and average loan amounts. Appropriate allowance is made for the mortgage insurance fee.

(5) From 1954 onwards the loan amount includes the mortgage insurance fee.

(6) For owner applicants the average costs are those estimated by the borrower, while for purchasers the actual sale prices are used. The mortgage insurance fee is included.

EXHIBIT 3.

PRICES OF HOUSES FINANCED UNDER THE NATIONAL HOUSING ACTS.

(Per Cent)

Price Range $	1954	1955	1956	1957		1st Quarter, 1958	
				Non-agency	Agency	Non-agency	Agency
Under 7,000	0.1	‡	‡	—	—	—	—
7,000– 7,999	0.3	0.1	‡	‡	—	—	—
8,000– 8,999	2.3	2.4	0.9	0.1	0.2	—	0.2
9,000– 9,999	7.9	8.4	4.4	1.6	4.2	0.4	1.9
10,000–10,999	18.6	18.7	10.4	3.9	14.8	2.7	10.8
11,000–11,999	16.6	16.5	16.2	9.4	20.7	4.2	18.3
12,000–12,999	21.0	15.2	16.3	13.8	29.6	12.4	27.7
13,000–13,999	13.1	13.3	14.1	14.0	12.9	13.4	17.2
14,000–14,999	7.8	9.9	11.7	15.1	10.8	15.2	13.5
15,000–15,999	4.7	5.7	8.9	12.4	4.7	16.9	7.1
16,000 and over	7.6	9.8	17.1	29.7	2.1	34.8	2.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number of Dwelling Units	26,984	47,728	47,593	29,997	2,269	5,964	9,425

Source: CMHC.

EXHIBIT 4.

SIZES OF HOUSES FINANCED UNDER THE NATIONAL HOUSING ACTS.

Floor Area (Sq. Ft.)	1954	1955	1956	1957		1st Quarter, 1958	
				Non-agency	Agency	Non-agency	Agency
Under 1,000	27.1	28.9	19.2	12.0	22.5	7.2	21.5
1,000–1,099	26.9	26.9	29.4	27.6	63.6	24.1	62.8
1,100–1,199	23.5	20.9	22.5	26.0	3.7	30.2	8.3
1,200–1,299	12.2	11.8	14.7	17.1	7.2	19.2	5.1
1,200–1,399	5.5	5.9	6.9	8.0	2.3	10.7	1.7
1,400 and over	4.8	5.6	7.3	9.3	0.7	8.6	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number of Dwelling Units	39,305	57,119	37,513	26,512	11,352	3,459	6,819

Source: CMHC.

EXHIBIT 5

Description of How an Individual Household Sewage Disposal Unit Might Work and Description of the Experimental Foamed Plastic Hut

DESCRIPTION OF HOW AN INDIVIDUAL HOUSEHOLD SEWAGE DISPOSAL UNIT MIGHT WORK

The best known individual sewage disposal unit is the septic tank and disposal tile bed. This method has been in use for over 100 years with little improvement and sometimes does not function well in congested areas.

In the septic tank the solids are reduced by settling out and digestion by bacteria called anerobes. The residue in the tank is called digested sludge. To purify this septic sludge requires the action of another bacteria called aerobes. These require large quantities of oxygen which is provided by allowing the sludge to flow through a tile bed set not too deeply in the soil so as to permit the penetration of oxygen. This action will purify the sludge quite well.

There is a unit available which uses these same principles but does much of the operation by mechanical means. The waste is flushed through a grinder which reduces the solids much as the septic tank does and the waste is then deposited into a tank containing water. Air is bubbled through this water continuously to provide oxygen for the aerobes which then purify the effluent. This process is called "activated sludge" and has been used for years in mass disposal sewage plants.

Such a unit is now available but it seems to have many limitations when used as a closed circuit re-using the same water again and again. Central Mortgage and Housing Corporation has financed a project to study this action and encourage improvements to make it operate satisfactorily.

This description of a possible individual household sewage disposal unit is based on the use of bacteria. There may be other methods and C.M.H.C. is trying to encourage additional work towards the elimination of mass sewage disposal pipes and plants.

One of the first things C.M.H.C. did when it was decided to study this problem was to have a literature search made. This search disclosed that very little research was or is being done on this subject.

The literature was checked carefully and letters were written to every major country in the world. It appears that the only country in which any work of this kind was done is the United States of America. Other countries appear to have discouraged such work because of high population densities and fear of pollution of the soils and waters. In the U.S.A., however, two units are now on the market. Both of these operate on the activated sludge or aerobic principle.

DESCRIPTION OF THE EXPERIMENTAL FOAMED PLASTIC HUT

In the attempt to find some revolutionary approach to new construction methods Central Mortgage and Housing Corporation together with the Division of Building Research encouraged the development of a foamed plastic hut. The floor, walls and roof of this consist of various types of foamed cores with different type skins. The floor also includes water pipes and electrical conduit built-in in such a way that the jointing of the panels automatically connects the pipes. The objective is to develop materials which will provide

structural strength, insulation, water resistance, rigidity and appearance, and the services, in one and which can be assembled on-site with a minimum of field labour.

A second hut is planned to be built of a material which may ultimately permit foaming in place.

If these are successful it is hoped to encourage further development along these lines.

If successfully developed such a method of construction would be particularly useful for northern construction. If the experiment is successful, it is possible to envisage two cans of liquid shipped to a site and then foamed in light weight molds up to 20 or 30 times its volume. Transport by air would be eased very much. Further, unskilled on-site labour could erect such houses easily.

Second Session—Twenty-fourth Parliament
1959

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE

on the Report of The Canada Council for the year ended March 31, 1958, and the Auditor General's Report of the Balance Sheet for the Council, as at March 31, 1958.

No. 1

WEDNESDAY, APRIL 15, 1959

THE HONOURABLE C. V. EMERSON, CHAIRMAN

WITNESSES

The Canada Council

Hon. Brooke Claxton, Chairman.

Dr. A. W. Trueman, Director.

APPENDIX A

Types of Grants

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

THE STANDING COMMITTEE ON FINANCE

Chairman: The Honourable Clarence V. Emerson.
The Honourable Senators:

*Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Buchanan
Burchill
Campbell
Choquette
Connolly
(*Halifax North*)
Connolly
(*Ottawa West*)
Crerar
Croll
Dupuis
Emerson
Euler
Farris
Fraser
Gershaw
Golding
Haig
Hayden
Higgins
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Pratt
Quinn
Reid
Robertson
Roebuck
Savoie
Smith
(*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
Wall
White
Woodrow (49)

* Ex officio member

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, Wednesday, March 18th, 1959.

"That the Report of the Canada Council for the year ended March 31, 1958, laid before the House on July 15, 1958, and the Auditor General's Report of the Balance Sheet for the Canada Council, as at March 31, 1958, laid before the House on August 20, 1958, be referred to the Standing Committee on Finance, in order to provide a review thereof pursuant to Section 23 of the *Canada Council Act.*"

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

WEDNESDAY, April 15, 1959.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.30 a.m.

Present: The Honourable Senators Emerson—*Chairman;* Aseltine, Barbour, Buchanan, Connolly (*Halifax North*), Croll, Dupuis, Fraser, Golding, Leonard, Macdonald, Pearson, Petten, Thorvaldson and Wall.—15

In attendance: The official reporters of the Senate.

The Committee proceeded to consideration of the order of reference of March 18, 1959.

The following representatives from The Canada Council were heard and questioned by members of the Committee:

Hon. Brooke Claxton, Chairman.
Dr. A. W. Trueman, Director.

In attendance:

Mr. E. Bussiere, Associate Director.
Miss Lillian Breen, Secretary.

On motion of the Honourable Senator Thorvaldson it was resolved to report recommending that authority be granted for the printing of 800 copies in English and 200 copies in French of the day to day proceedings on the said order of reference.

Further consideration of the order of reference was adjourned.

At 11.50 a.m. the Committee adjourned until Thursday, April 23, 1959, at 10.30 a.m.

ATTEST.

John. A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, Wednesday, April 15, 1959.

EVIDENCE

The Standing Committee on Finance, to which was referred the report of the Canada Council for the year ended March 31, 1958, met this day at 10.30 a.m.

Senator Emerson in the Chair.

The CHAIRMAN: Gentlemen, we have a quorum. I call to order the meeting to hear evidence on the report of the Canada Council. We have before us the following witnesses: The Honourable Brooke Claxton, Chairman of the Council, Dr. A. W. Trueman, director, Mr. E. Bussiere, associate director, and Miss Lillian Breen, secretary. I will first call on the Honourable Brooke Claxton to address the meeting and to explain the report, please.

Honourable Brooke Claxton, Chairman of the Canada Council: Mr. Chairman, honourable senators, if it would meet your convenience I might open with a statement describing the origin and the first year of the Council, but if at any moment honourable senators would like to interrupt I would be most happy to endeavour to answer any question.

The Canada Council Act received Royal Assent on March 28, 1957. You will find the act printed in the report of the opening proceedings. It is not available here for you, but if you wish we could provide you with copies. The Council was appointed by the Governor in Council on April 15. It consisted of 21 members, including myself as Chairman, and Vice-Chairman, Monseigneur Lévesque. There were members from every province. The Council met for the first time here in the Parliament Buildings on April 30 when His Excellency the Governor General opened the meeting and accepted election as patron of the Council.

It may be remenbered that the Council to a considerable degree resulted from the report of the Royal Commission on National Development in the Arts, Letters and Sciences of which the Right Honourable Vincent Massey was chairman. One of its major recommendations was the establishment of an organization to be called The Canada Council.

At its first meeting, in addition to adopting bylaws and agreeing to a tentative budget, discussing plans approving of a lease and approving an establishment for staff, the Council was welcomed to the fold of the foundations by representatives of the Rockefeller Foundation, of the Carnegie Corporation and of the Ford Foundation. These are the three largest foundations in the world.

They also met us at lunch and answered questions on the way in which their foundations operated, and the various problems we might have to meet.

I remember one of them saying that one of the most difficult things that a foundation had to do was to say: "No", and to say it firmly and, if possible, never to give any reasons for it because giving of reasons only got you into an argument without getting you anywhere. In fact, it was suggested that the best answer to be given to an application for funds which you are turning down is to say: "Dear Sir, we have nothing but praise for your proposal"— nothing but praise. This was a very useful meeting.

Senator MACDONALD: Have you followed that advice?

Hon. Mr. CLAXTON: We have not found it possible for a publicly created

Senator MACDONALD: Have you followed that advice?

This meeting created a very close working relationship with the American foundations which I had known for a good many years in other connections.

We also established a close working relationship with the Arts Council of Great Britain of which Sir Kenneth Clark was the Chairman. He visited us in Canada last year and gave the first of the Canada Council lectures. He may be remembered by you as a former professor of Art at Oxford, Curator of the Tate Museum, and he is also Chairman of the privately-owned television set-up in England. He was most helpful.

We established our offices at 140 Wellington street, just across the street, and there we gradually built up a staff which at the end of the first fiscal year—that is, 31st of March, 1958—totalled 14. Today it totals 23, and there are three vacancies. We hope to keep the staff at something under 30 which, in view of our operations, is considered to be good.

We also set about establishing relations with other agencies working in Canada in the field. The National Conference of Canadian Universities, representing all of the 86 universities and similar institutions of higher learning in Canada, met us at their annual meeting on June 6, and at our suggestion appointed a committee which we met two days later and discussed with them how we would operate the University Capital Grants Fund. The plans for operating that fund, the policy, as set out in the first annual report which you have before you, have been followed since then, and any changes that we have made have been minor in character and always agreed to by the National Conference of Canadian Universities which, as I say, is representative of all the universities or equivalent institutions in Canada.

This policy regarding university capital grants is set out at page 41 of the report which you have in your hands. One of the first things we had to do, of course, was to get the money working, the $100 million which had been appropriated by Parliament. Here I may say that the Council, and indeed I think the people of Canada, were very fortunate in that Mr. Graham Towers accepted appointment as chairman of the Investment Committee. Other members of the committee are Mr. J. G. Hungerford, President of the National Trust Company Limited; Mr. James Muir, President and Chairman of the Royal Bank of Canada; Major-General George Vanier, a Director of the Bank of Montreal, and myself, *ex officio*.

Mr. Towers and the other members of the Investment Committee have taken a very active part. We were successful in obtaining the services of Mr. Douglas Fullerton, M.A., a graduate of Commerce, who had been in Government service after retiring from the army. He is our treasurer. We set up arrangements under which the bonds of the Canada Council are held for us by the Bank of Canada without cost to the Council. The stocks and other securities are held by the Montreal Trust Company for a minimum charge. So that at no time do any of the securities of the Council come into the hands of the Council as such but are held by trustees for it. All the officers and employees of the Council handling funds are bonded.

This money was invested in accordance with a program agreed to by the Council at its first meeting, provided that the endowment fund might be invested in securities which generally correspond with the securities legal for insurance companies under British and foreign insurance companies acts.

The university capital grants fund of $50 million by law is required to be invested in federal Government securities. At the end of the year we were earning 4.3 per cent on that $50 million university capital grants fund. Under the act the endowment fund may be investment in any securities but, as I say,

as a matter of policy, we decided to limit them largely to those legal for insurance companies. At the end of the year we were earning 5.3 per cent on the endowment fund. Now, however, I can tell honourable senators with a good deal of satisfaction that our current rate of earnings on the endowment fund is 5.8 per cent.

The university capital grants fund of $50 million set up under the act is to be expended in both capital and interest in grants to assist universities to erect buildings to be used for the arts, humanities and social sciences. The university or equivalent institution must put up a corresponding amount of money. We were faced with the question as to what universities should be eligible. We decided as a matter of Council policy to use the same list as had been arrived at in connection with the university per capita grants already being paid by the federal Government. This list had been agreed to by the National Conference of Canadian Universities. It consists of 87 universities or equivalent institutions; so that we used precisely the same list and have done so since. When they have made changes in their list, as they have on two occasions, we have adopted those changes.

Under our act the money is to be allocated to the universities in each province in the proportion which the population of that province bears to the population of Canada. That allocation will be found at page 41. There you have the provincial allocation according to the June 1st, 1956, census. That means that for British Columbia the Council may by statute allocate $4,357,000 out of the fund of $50 million it had at this time.

Then the question arose as to how grants would be allocated to universities within each province. Again we followed the method chosen by the National Conference of Canadian Universities. We decided to earmark for each institution in a province and hold available for it an amount equal to the proportion which the total number of graduate and undergraduate students in courses leading to a degree in each institution bears to the total number of such students in that province.

So a list was then arrived at by agreement with the National Conference of Canadian Universities. It enables the universities to know the minimum they are likely to get, interest being added later. It enables us to make an allocation without discrimination on a basis which has already been accepted by the universities as fair, and which has been used by the federal Government in connection with another grant. It seemed to us that it would not be sensible for one agency of the Government handling federal Government money to make allocations on one basis, and for another agency set up by the Government, the Canada Council, to chose some other basis. So we chose a basis which seemed to be working satisfactorily.

Senator CONNOLLY (*Halifax North*): May I ask whether population is the only factor that counts?

Hon. Mr. CLAXTON: The only factor. That is determined by the statute.

Senator CONNOLLY (*Halifax North*): There is not a recognition of special need, not a special work done by a university?

Hon. BROOKE CLAXTON: The buildings for which funds may be contributed must be for the arts, humanities and social sciences as defined by the act and determined by the Council. Within each province the Council can differentiate as from one institution or another, but I think it is generally recognized that all the universities in Canada will need to have buildings for at least the amount of their share within the period the fund is likely to last. It is hard to say that one need is greater than the other, because all are to a certain degree necessitous.

Senator **Connolly** (*Halifax North*): Would it be fair to ask—and I will not press this, Mr. Chairman—if a university propagating a co-operative movement would be entitled to a special preference?

Hon. **Brooke Claxton**: We would not regard a co-operative movement propagation as coming within the arts and humanities and social sciences. We would regard the study of co-operative movements as possibly coming within "social science", but not a co-operative movement itself. This is a differentiation we had to make with regard to education, social work and the like.

Now, so far up to the end of the period covered by this report which you are specifically concerned with, we made a number of grants to universities. There were altogether 13 for a total of $4,084,300. That is mentioned in the bulletin issued by the Canada Council shortly after the end of the fiscal year. As a matter of information, I might add that since then up to the end of the second fiscal year we have made 42 grants to institutions, totalling $12,816,564, and there is only one pending. The reason it was not acted upon at the last meeting was that the papers were not quite in order.

Senator **Leonard**: Is that $12 million in addition to the $4 million?

Hon. **Brooke Claxton**: No, that is inclusive. It is $12,816,564.

Senator **Leonard**: That is inclusive?

Hon. **Brooke Claxton**: Yes. We have had the most complete co-operation from all the universities. The National Conference of Canadian Universities has its office in Ottawa in the same building with us. Its permanent secretary, Dr. T. H. Matthews works very closely with us, and sits on some of our committes.

If I may turn to the endowment fund, the income is about $2,700,000 a year. I may mention first that the Canada Council is charged with support of the National Commission of Canada for UNESCO—the United Nations Educational, Social and Cultural Organization. Until last year Canada did not have a national commission set up to deal with UNESCO matters. I think that out of about 73 countries there were only six that did not have a national commission set up, and we were one. This was considered desirable, and we were both by the statute and by order in council entrusted with the job; and since then have set up the national commission. Dr. N. A. M. MacKenzie, president of the university of British Columbia, who is a member of the Canada Council, is president of that Commission. The vice-president is Dean J. F. Leddy, Dean of Arts of the Faculty of Saskatchewan, likewise a member of the Canada Council. Another member of the National Commission is Madame Alfred Paradis, of Montreal, a member of the Canada Council. Mr. Eugene Bussière associate director of the Canada Council, is secretary of the National Commission, and spends a large part of his time on UNESCO matters. In this we work very closely with the Department of External Affairs, which has appointed an officer, Mr. Marcel Cadieux, to have to do particularly with UNESCO cultural matters, and Miss Mary Dench who has been associated with this work since its beginning.

The first National Conference of the Canadian National Commission for UNESCO was held last month in Montreal and was widely attended.

The next charge on the revenue of the endowment fund is the cost of administration and this has worked out at about 6 per cent of our total income, which corresponds favourably with the cost of administration of the American foundations and is considerably lower than the cost of the administration of the Arts Council of Great Britain. I do not know of any foundation having a lower cost. We are just beginning and there is a tendency in all organizations to add to their staff but we are going to resist, I hope, and how successful we will be I do not know.

Among the matters to be considered at the outset was how the remaining income from the endowment fund be spent. It had to be spent for the support and encouragement of the arts, humanities and social sciences. But how much would be spent, for example, on assistance to individuals, on scholarships, felowships and other grants to individuals, how much would be spent on assistance to organizations, how much would be spent on the arts, how much on the humanities and social sciences. These were all questions which had to be answered. There was no precedent to guide us in this or any other country, and the council decided, I think wisely, that it would proceed slowly, and endeavour to learn as much as it could about the situation of the various arts, humanities and social sciences, and their needs, but at the same time it would use every opportunity it could to discuss what it should do with representatives of other organizations working in these fields. There were three organizations in particular with which we have worked closely: One is the Humanities Research Council. This was set up in 1943 as a development from the Social Science Research Council which had been in existence from 1938 and it was created at a time when Dr. R. H. Coats, Dominion Statistician, was chairman of the Social Science Research Council. These two organizations represented university poeple working in these fields and they were fortunate in securing substantial grants from the Rockefeller Foundation and from the Carnegie Corporation, grants for followships in graduate work, for assistance in publications and for special projects. They are still receiving grants from these sources but it is possible that in time these may be reduced or even discontinued.

We decided, and I think wisely, that in view of the fact that these two organizations had been in successful operation representing all the universities across Canada for a number of years that we should not endeavour to duplicate them but that we should work closely with them, and that we have done ever since.

There was also another organization, the Canada Foundation, which was created in 1945 resulting from a gift of money by an anonymous donor to the Royal Canadian Air Force for educational and cultural purposes, some of which money was left over at the end of the war and it was turned over to this organization set up for the purpose and it has since received other grants, dealing particularly with the arts.

So we were very fortunate in having these representative experienced organizations to which to look for advice and we sat down with them towards the very beginning of our operations and discussed with them what we should do in the way of assistance in their fields.

Perhaps honourable senators might excused me if I refer to a passage I read at the opening meeting in which I speak of some of these difficulties that were facing us at the time.

> I imagine that one of the Council's initial tasks in promoting the arts and humanities will be to discover (or help others to discover) and assist Canadian artists and thinkers of outstanding promise, men and women whose records and qualities suggest that they can and will proceed to higher and greater achievements if given the opportunity. Another object may well be the encouragement, training and assistance of university professors an other instructors in the fields of the arts, humanities and social sciences. As a general rule I do not suppose that the Council will itself commission directly the production of artistic works. The Canada Council should not be another art factory to compete with or cut across existing activities; it should be a powerhouse to generate interest. Our duty is to support, encourage, supplement and give recognition to desirable and attainable objects, all within the broad terms of Parliament's mandate. And I hope that ways may

be worked out for corporations and individuals to use the Council in connection with scholarship and other programmes into which they are entering on an increasing scale. The Coucil should be an agency where public assistance and private enterprise meet and mix and work together.

At the Council meeting on the 19th of August, 1949, we agreed to set up scholarships, fellowships and other grants to individuals under ten different categories. I will not read the general statement, but any of these papers I am referring to are available for members of the committtee.

(1) The first is Pre-Master's degree scholarships, scholarships of an average value of $1,200 for studies leading to a master's degree tenable or renewable for one year. It will be seen that all these scholarships and fellowships are for post-graduate work. It was not envisaged by Parliament or by the act or by the Massey Commission or by the Council that it was part of its jobs to assist in undergraduate work. All our money has been given for graduate work with very little exception.

(2) The second category is for Pre-Doctor's degree fellowships.

(3a) Senior research fellowships. Here we are getting up to $4,500 for a married fellow, plus travel costs for the fellow, plus two-thirds travel costs for the fellow's wife.

(3b) Senior art fellowships for artists, musicians, writers and other workers in and teachers of the arts who have achieved a wide and well-established reputation. These are of an average value of $4,500 for a married fellow, plus travel costs for the fellow, plus two thirds travel costs for the fellow's wife.

(4) Arts scholarships. These are of an average value of $2,000, plus allowance for necessary travel by the scholar.

(5) Scholarships for secondary school teachers and librarians. This was a field where we felt it very desirable to give encouragement to people who wanted to improve their work as secondary teachers and librarians. These are of an average value of $2,000.

(6) Scholarships for arts teachers and professional staff members of art galleries and museums.

(7) Grants in aid of research and other productive scholarship.

(8) Non-resident fellowships.

Here I should mention that up to this time no fellowships had been offered to non-residents of Canada, except those coming from the blocked funds of the federal Government at the end of the war, which were held in Netherlands, Belgium, France and Italy, and which could not be transferred into Canadian funds. The federal Government decided that one way of using the funds was to send Canadians abroad, and spend the money on them there; also, to bring some Europeans to Canada. The province of Quebec has also sent Canadians abroad, and brought non-Canadians to Canada. These were the only sources of any size for our having non-resident scholarships in the fields of arts, humanities and social sciences, and yet there were more than 30 countries which had offered scholarships and fellowships to Canadians.

We felt, along with the Massey Commission, and with Parliament, that it was high time we did something in this field in the interest of Canada. We accordingly set up an arrangement with the Department of External Affairs whereby in every country where it has a foreign mission our ambassador or minister in charge of that mission should make it known through the press and speeches that these scholarships are available, and then receive applications. These are processed there by a member of the embassy staff, by a

distinguished Canadian if there is one in the locality, and by a representative of the local educational authority. The applications are then forwarded to Ottawa where they are finally processed and the candidates are chosen.

I should say that at the present time we have scholars working and studying under our scholarships in 27 different countries, and we have here scholars from more than 50 countries.

The non-resident fellowships also include five for very distinguished visitors from abroad. This would pay $5,000 plus travel, plus two-thirds travel for wife, which would enable a very distinguished worker in one of these fields to come to Canada for a year. That is now being carried on, and I think it will bring a good many useful workers to some of our institutions.

We also have category (9), fellowships for journalists, broadcasters and film-makers.

Category (10) is a sort of omnibus clause which catches anyone who does not come within any of the other nine categories but who should get a fellowship.

These were advertised during the months of August, September and October. The universities were of course all circularized with information and application forms, and applications were required to be in by various dates starting with 15 December. On arrival at our Council office, they are processed to see that the papers and accompanying documents are in order, and they are then turned over to the Humanities Research Council, the Social Science Research Council, or to the Canada Foundation, each of which sets up a panel of adjudicators or juries, who report to each of those bodies on the applications, and we receive a collective report from them. Those reports are considered by the Canada Council, which makes the final decision.

I can tell honourable senators that so far we have received about four applications for each vacancy. It is interesting to note that the standard of the applicants, as one would expect, has greatly improved as between the first and second year, so that the committees have grave difficulty in arriving at a decision in respect of the last two or three places. This year we added an extra 37, so as to include applicants who appeared to be equally eligible. That seemed the fair way to deal with them.

Altogether in the first year we made 467 awards under these categories, for a total of $945,000. In addition, in the first year we gave 12 grants to individuals for special projects, totalling $27,950.

I can tell honourable senators that for the year just past, which is not before you, but I am sure you will be interested in the information, we have made a total of 570 awards of scholarships, fellowships and so on, of which 79 are to non-residents. Altogether we have given 1,037 scholarships, fellowships and grants to individuals in the two years that the Canada Council has been in existence. That is a very substantial number. You will appreciate that when I say that according to Wilson Woodside's book "The University Question", there were 3,200 fellowships and scholarships available for post-graduate work in Canada. This is the striking thing, that only 270 were for work in the arts, humanities and social sciences. This was a major reason why Mr. Massey and his commission recommended, and why Parliament agreed to pass this law. This was a field in which no one was taking care of an urgent need to enable Canadians to improve their work in these fields. To a considerable degree workers in medicine, in the applied sciences, in engineering and even in business, were being provided for; but virtually no provision was being made in the arts, humanities and social sciences.

So, honourable senators, the number of scholarships, fellowships and grants to individuals, in the two years, totalling 1,037 or approximately 500 a year, corresponds with 270 being given for these purposes from all sources up to the coming into force of the Canada Council.

We regard these contributions to young men and women of promise who have shown by their work that they are likely to go on to very considerable achievements as unquestionably the most important branch of our work. The best investment that Parliament or the people of Canada, or of the provinces, can make is in the future of its bright and promising young people. If we look after those, I am sure the sticks and stones and equipment will look after themselves, although we will help in that too.

I have virtually finished, except for one important field, namely the assistance to organizations. I have covered assistance for the construction of buildings—that is under way; assistance to individuals—that is under way. Now we have assistance to organizations working in the field of arts, humanities and social sciences.

Here we had our greatest difficulty because of the wide variety of organizations that might qualify, and the fact of course that we are dealing with organizations stretching from St. John's, Newfoundland to Vancouver Island.

What we did was to try to arrive at some tentative principles in our minds—some tentative allocations—and see how they worked out. One thing we aimed to do in helping organizations was to spend money on a thing which was successful and likely to continue to be successful. Generally speaking, with few exceptions we have not tried to bail out something that was about to fold up. We thought that the money could best be spent where a $25,000 grant, for example, would lead to an organization extending its work, improving the quality of what it was doing, and raising more money itself.

I can give, I think, a rather dramatic illustration of how this worked out in the first year in the field of symphony orchestras. We gave $105,000 to seven symphony orchestras in the fiscal year under consideration by you. While it was not an express condition, we expressed the hope that they would raise at least that amount of money additionally, improve the quality of their orchestras, have more professional players, and so on. What happened was this: those orchestras played the same number of regular concerts as they had the year before, but we had urged them to extend their work particularly to school children. They extended the number of concerts to school children and outside the cities from 93 to 175. They extended their total audience from 320,000 to 477,000, and where we gave them $105,000 they raised $840,000, indicating that what the philanthropoids, to use the jargon, call the "principle of leverage" actually works.

We had another dramatic illustration of what can be done in another direction in the case of Newfoundland. We wanted to send a major organization to Newfoundland, something which had never been done since the union in 1949. I got a price for sending the Toronto Symphony Orchestra to 12 major centres across Canada including Newfoundland. It was ascertained that the loss for each performance even at top prices to a capacity house would be $6,000, which indicates something of the high cost of these musical and theatrical organizations. That seemed too much; and, also, the orchestra was not at the time in a position to travel because it had made contractual arrangements elsewhere.

The Halifax Orchestra, however, had greatly improved under the direction of Thomas Mayer who is now the conductor of the Ottawa Philharmonic Orchestra. They had a core of about 30 professional musicians. We conferred with them over the long distance telephone and quickly arranged that they would go to Newfoundland provided that we could get them transportation. I recalled from my years in the Department of Defence that we had an air force station in Newfoundland and they had a large camp site. They arranged to lift the orchestra in exchange for a free performance for the adults, and another one for the children. Then I recalled that the Americans had another big station field at Harmon Field, and we got them to lift them out. For a

contribution of $5,500 this orchestra was brought over from Halifax and it gave 14 concerts to adults and four to children, and it had a magnificent reception.

That is the kind of way in which a foundation should work; that is, by getting the local people—and here it was the Provincial Government, the Kiwanis Club, and the Junior Chamber of Commerce—to back it and guarantee it, and get every kind of help to lower the cost. In that way you are able to do a job which otherwise would have been prohibitively expensive.

We have worked out programs for grants to organizations in various fields. Some of the larger ones I might mention. Obviously Stratford required assistance, and we gave it $50,000 for each of the two years.

A great theatrical organization in Canada is the Théâtre du Nouveau Monde. It is, perhaps, one of the finest French speaking theatrical groups. It travelled to Europe and, unfortunately, hit Paris when the De Gaulle disturbances and elections were going on and people were not going to the theatres, and they had a heavy loss. We gave them $30,000, and they gave over a hundred performances across Canada. It was found—particularly for a French-speaking organization outside of Quebec—that it is desirable to get local sponsorship to guarantee the house and build up support and then they can be a success. However, this caused quite a loss of money, but since it was experimental and this is a great organization the Council is making another contribution of $39,000.

The ballet some of you may not like, but ballet, I can assure you by the box office receipts and by attendances, is a most popular art form in Canada. We have three ballet companies of very considerable quality, the National Ballet of Toronto, the Royal Winnipeg Ballet, and Les Grands Ballets of Montreal. We had such insistent demands for large sums of money that, with the consent of these organizations, we decided to have an economic study made of the ballet and of what was involved in keeping it alive. This study produced some interesting results. It was done by Kenneth LeM. Carter, chartered accountant, senior partner in McDonald, Currie & Co., Toronto. He produced a report which I think will be not only of great use in this field in this country but in other countries because I have never seen anything like it. One of the most satisfactory findings is to see how the loss per capita goes down with the attendance.

In the 1957-58 season there was a total expense of $646,000, and total receipts of $424,000, representing 65 per cent of the cost. It played—and this is interesting—to 196 performances including 28 in Mexico where it played to full houses. The wife of the president went six times.

Senator LEONARD: Excuse me, but is this one ballet?

Hon. Mr. CLAXTON: Yes.

Senator LEONARD: It is the Canadian National Ballet?

Hon. Mr. CLAXTON: Yes, of Toronto. Its average house was 1406, and its average loss per person was 81 cents.

I will not go over the figures in detail but the other two ballets had average attendances of 641 with an average loss of $8.82, and 575 for an average loss of $8.36, indicating how the loss goes down as the attendance goes up. This has become a great Canadian institution.

In the two years the Council has made 228 grants to organizations, totalling $2,126,763. Perhaps it might meet the convenience of the committee, Mr. Chairman, in this table giving types of grants to universities for scholarships, and to individuals and organizations, is put in the record.

The CHAIRMAN: Yes.

(See Appendix "A" at end of today's report)

Hon. Mr. **Claxton**: Mr. Chairman, that concludes my presentation. I think it should be added that all 21 members of the Council have been most faithful in their attendance. They are very busy people—they are listed at the back of the report before you. The average attendance at meetings has been over 18 out of 21, and so far as I know no member of the Council has been absent from a meeting except because of illness or being abroad. They have been keenly interested, and they have had a great feeling of satisfaction—I do not think it is wrong to say that—and a feeling of privilege at being called to serve in this important way and carry on this important work. Its importances is not to be measured only by dollars or numbers of people. It can only be measured as time goes on and we see whether or not the people we picked were good choices. I am told by the experts in these fields that if one out of three turns out to be thoroughly satisfactory, a real leader, then your batting average is just as high as a .333 average would be in a major baseball league. I hope that will show as time goes on.

Senator **Connolly** (*Halifax North*): No strikeouts, no foul balls.

Hon. Mr. **Claxton**: Already quite a few of the people we have picked have achieved distinction. I might just pick out two or three. We get reports from the students we send abroad before they receive their second cheque, and at the end of their course, and they indicate generally speaking that they seem to be doing well. I might mention Therese Brassard who won a junior arts scholarship in 1958 to study enamel work in France. She won a silver medal for the enamels she exhibited in the 4th Exposition of the Women's Club International in Paris. Then there is Ronald Walter Turini who won a junior arts scholarship in 1958 to continue his piano studies in New York. He won second prize in the 14th Geneva International Competition and second prize in the Busoni contest at Bolzano, Italy. No first prize was awarded in either competition, so he led the lot. It is very interesting to observe that Teresa Stratas who as recently as last week won the Metropolitan Opera auditions of the air, had been chosen by us to go abroad to study this coming year.

The youngest recipient of a scholarship is Susan Davies, a young ballet dancer from Edmonton. She led the whole Commonwealth in an entrance competition. She has been sent to London to the Royal Ballet School. She understudied the Scottish doll in the Royal Ballet Performance of Coppelia. She was the only new girl chosen to be an understudy. So this young child of 12 or 13, who is well-known, I believe, to Senator Cameron, is doing as well as she was expected to do.

We have had the good fortune to be able to send organizations like the Montreal Bach Choir and the Hart House Orchestra to Brussels, where the Hart House Orchestra had singing with it Miss Margaret Lavergne. Things have been moving along. We have made mistakes, of course. But who wouldn't.

Senator **Macdonald**: If a student were not getting along, what would happen?

Hon. Mr. **Claxton**: We would not renew the grant. If we had word that a student was misbehaving, we would stop paying the money. We pay the grants in three instalments and we don't pay the second grant until we get a letter from the student after he has arrived at his destination and we see what he is doing. Some foundations have found that grants have been accepted and the people have not started out on the project for which the grant was given.

I think I would be right in saying that as we have moved around the country we have found a great upsurge in the arts in Canada. This is to be found in every province and in every field of endeavour. This is not as a result of the work of the Canada Council, but the Canada Council has come in at a good time when there are desirable projects which can be helped, when

there are local supporters who are giving their help and when there are a surprising number of really qualified artists, performers and musicians. Today we have in Canada such people as Maureen Forrester, Lois Marshall, Glen Gould, George London, Betty Jean Hagen, Leopold Simoneau, and I could name a dozen others, who have international reputations. This is, I think, the first time in the history of this country that this has happened, and I believe that in proportion to our population it would be found that Canada is not dragging her feet in these fields.

The CHAIRMAN: Mr. Claxton, on behalf of the honourable senators here, I wish to take this opportunity to thank you very, very much for your most excellent and wonderful address. I am sure honourable senators certainly have a different view of the Canada Council now. I am also sure that if honourable senators would like to ask any questions you would be most pleased to entertain them.

Hon. Mr. CLAXTON: Yes.

Senator LEONARD: I feel we might come back to Mr. Claxton's own answer if he does not mind accepting it. We have nothing but praise for the Canada Council.

Hon. SENATORS: Hear, hear.

The CHAIRMAN: I also want to take this opportunity of thanking the Director, the Assistant Director and the Secretary of the Canada Council for being with us this morning. They are most kind to be here.

Hon. Mr. CLAXTON: I should add that we are very fortunate indeed in our staff. Our Director is well known as having been principal of two universities and also head of the Film Board. Mr. Bussiere worked actively in this field with UNESCO and in social sciences at Laval University and in Ottawa. Mr. Fullerton is an exceptionally able investment man, Mr. Peter Dwyer, Supervisor of the Arts Programme, has done an excellent job. Miss Breen is well-known to many of you as the Secretary of the late Ward Pitfield in Montreal, which used to be a client of mine when I was in the practice of law. Anyone who could handle that job and then become Secretary to J. L. Ralston needs no further mention as to qualifications. The whole staff has been good and has worked hard.

Senator THORVALDSON: What is the number of staff you have?

Hon. Mr. CLAXTON: Twenty-three, but we have two or three vacancies. I hope that we will keep the staff below 30. By the way, our staff members are covered by the Civil Service Superannuation Act. They are not under the civil service but, generally speaking, in fixing their rates of pay and conditions and hours of work, we endeavour to conform to the civil service conditions, as do most employers in Ottawa.

Senator CAMERON: There are one or two observations I would like to make. First of all I would like to second the comment of my colleague, Senator Leonard, that most of us have nothing but praise for the fine work the Council has achieved in a relatively short time. As far as getting the odd person selected for a scholarship who may not be too successful, I am sure a number of us have known of Rhodes scholars who have not lived up to expectations in the past. In looking over this magnificient achievement in encouraging young Canadians, I think there is one area that needs some attention. In saying this I fully recognize how difficult it is to get young people started on the road. Many people going into arts are not concerned with an academic degree. The kind of training they want does not fit into the usual academic pattern. I think most of us in university work recognize that getting a start is the hardest thing. After the first year the faculty members have a marvelous capacity for finding ways and means of helping students. But one area which I think Council could

explore is to be found in section 7 on page 50 of the First Annual Report, the short-term grants of $300 and $700. You would be swamped by requests for assistance there, but I think they could be handled in some way. A number of grants in that area would help the selection process and encourage and assist us to discover young people who may not fit into the regular academic patterns but who have great talents in certain fields. I have in mind, for instance, a young musician by the name of Mark Jablonski, of Edmonton, who is now at the Juilliard School. You will probably be having him on your doorstep before too long. This young pianist will be famous some day. There is no question about it, but as yet he has not been able to qualify under the Canada Council regulations. There are others in this category too.

Dr. TRUEMAN: When you refer to young people, Senator Cameron, just what age group do you have in mind?

Senator CAMERON: I am thinking of children of the age of 16, 17 and 18.

Dr. TRUEMAN: You are not thinking of children of the age of seven and eight?

Senator CAMERON: No. I am thinking of people of unusual talent who need to get started young if they are going to get anywhere. I used this one as an illustration. It seems to me there is an area, a very difficult one, that you might keep in mind.

Hon. BROOKE CLAXTON: We have given 131 short term grants for 1958-59, and 100 for 1959-60, but a lot of those would not be in the category you mention.

Dr. TRUEMAN: $85,000 or $90,000.

Senator WALL: I wonder if I might offer commendation and sincere admiration for the wonderful analysis given to us by Mr. Claxton. I think we all realize the tremendous responsibilities which the Council is anxious to undertake. I think we must measure those responsibilities and the needs against the financial facilities which have been granted to the Council in order to meet these needs.

There are one or two questions I would like to ask, if I may. In this endowment fund, Mr. Claxton, or Dr. Trueman, which is now bringing in a revenue of $2.7 million, how is the distribution likely to normalize in the next year or two; that is, what amount of money will probably go to the National Commission of UNESCO, what amount to administration, what amount to scolarships and fellowships, and what amount to other grants? Would that be a difficult question to answer?

Hon. BROOKE CLAXTON: No. The National Commission for UNESCO, I hope, will settle down at $100,000 a year. We estimated $75,000 for the first year, but expected it would grow. The current cost of administration, apart from UNESCO, is about $200,000. About $1,200,000 goes to scholarships and fellowships and grants to individuals, and the rest to organizations.

Senator CAMERON: In that connection, there is one question I would like to ask, Mr. Chairman. I believe provision is made under the terms of the act to receive gifts from people who may wish to add to the fund. How much has come in?

Hon. BROOKE CLAXTON: $1,000. I should say that my feeling was that until the Council had shown what it could do with the investments, and that it was responsible in the way of paying out money, we should not carry on what might be called an active campaign for business; but we have had two very hopeful looking inquiries, and one of those negotiations is actually under way, which I hope will result in a bequest of a very considerable sum of money to the Council. My thought is that now we have shown that 5.8 per cent can be earned. I hope that people who have money to give will, rather

than set up their own foundations, entrust us with it. I should add that this is the only "commercial." We have been advised that it is legal for the Council to receive money and administer it and pay it out in accordance with directions for objects even outside of those of the Council. So if anyone wanted to leave us $1 million for scholarships to be used for public administration, let us say, for for some branch of science, we would be permitted by our charter to do that, although naturally we would rather that the majority of grants would be for the arts, humanities and social sciences.

Senator CAMERON: May I express the hope that you will not be too successful in that kind of competition?

The CHAIRMAN: I wonder if the grants being made by the Council might have some effect on contributions that might be made by foundations in the United States, Mr. Claxton?

Hon. BROOKE CLAXTON: I have no specific information; but one suspects that they would have that feeling to some extent, particularly if it happens to be a field we are already in. However, I have been in touch with the president of the Ford Foundation, Mr. Heald, the president of Carnegie, Mr. Gardner, and the president of the Rockefeller Foundation, Mr. Dean Rusk, in an endeavour to persuade them that they should continue to help Canada and Canadians as in the past, and they have agreed to do so. I hope they will not only stick to their agreement but increase their grants. I think they should be encouraged to do so now that we are doing something for ourselves. They have been very generous. It is rather interesting that the president of the Rockefeller Foundation said, in effect, "You may think that the Canada Foundation is small compared to us, but I have been working it out, and I think your revenue will be about the same as the Rockefeller Foundation has spent in 44 years in Canada." There are seven foundations I can think of in the United States that have more than $100 million. The largest, of course, is the Ford Foundation, which has about $2 billion—we do not know exactly how much. The next is the Rockefeller Foundation, with about $650 and the third is Carnegie, with about $300 million. The others include the Kellogg, Duke, Pew and Harkness. I think those are the seven.

Senator DUPUIS: Is there any possibility of having a detailed distribution of scholarships as among the provinces? I understand that scholarships have been granted to students in arts, humanities and social sciences, covering the whole country. Would you have any difficulty in giving the number of scholarships in each province?

Hon. BROOKE CLAXTON: Whenever we award scholarships we issue a press release, and of course these are in the press releases; but we have never made a division of that kind.

Senator DUPUIS: I think there was one published lately. Was there any objection by the Quebec authority on the grounds of autonomy?

Hon. BROOKE CLAXTON: No. I can assure you that the Quebec educational authorities are very alive to the existence of the Canada Council, and we have a great number of applications from them. They are very well qualified. A large number have been given in Quebec.

Senator LEONARD: On the basis of $12 million being allocated out of the $50 million capital grant, does it look as if that will be used in the course of about three or four years?

Hon. BROOKE CLAXTON: We would think it would last about seven years, but it is hard to say. In the discussion in Parliament it was indicated that this fund would be used up in about that time. I should think it might be used up in about seven years.

Dr. TRUEMAN: There is an interesting further point to that effect. $12 million is the sum the Council has authorized. The amount which has actually been paid off is, I think, something like $4 million. These grants are given in progress payments, of course. This obviously works to the great advantage of the fund. We have earmarked the $12 million, but paid out only say 4 million, using rough figures, so therefore we still have $46 million, which earns interest at a very satisfactory rate. I do not know whether we have had the Treasurer project into the future just what the total sum will be, but obviously in the six or seven year period we will have more than $50 million to give away, which again will perhaps extend the time over which the whole fund will be diminished.

Senator WALL: Doctor Trueman, apropos this distribution among the provinces, is that this done at some point of time whereby say a college suddenly began to grow very quickly and would suffer for the need of revenue?

Dr. TRUEMAN: When we started making these grants and receiving applications we took for purposes of the allocation of a province figures from the Dominion Bureau of Statistics. Then the next year we took the new figures, went over the list, adjusted our allocations, and tried to bring things up to date.

Senator WALL: I wonder if I could get one more comment? In view of all the various agencies covering scholarships, is there a clearing house whereby some informational method could be arrived at integrating all the various scholarships being given all over so that we could know the needs and how they are being studied and arrived at, with the Council being in a sort of senior responsible position?

Dr. TRUEMAN: The only thing I can say again is that we find the reports issued by the Dominion Bureau of Statistics of considerable use to us; they cover this field very well; they publish special pamphlets or booklets in which they deal with scholarships schemes which are in operation. This is an interesting point, and the scheme which the Government is at the present time discussing about the Commonwealth exchange scholarships raises this very point. In an ad hoc committee, it was brought up the other day. We thought that it was obvious that a general survey should be made of what the National Research Council and Canada Council are doing, and any other schemes, in order that this scheme might not overlap or might not show conspicuous omissions of what ought to be done.

Senator WALL: Would you permit me one final point? I am thinking now of the adequacy or the level of adequacy of these scholarships, and am specifically thinking of our non-residents. It is wonderful that we are able to meet some of these needs. I note that $2,000 granted as a travel allowance for these fellowships, does not provide for teaching scholarships. Is that a relatively stringent proviso, and do these people find that it is pretty difficult to come to Canada on $2,000 even to accept a scolarship?

Dr. TRUEMAN: You are certainly putting your finger on the right spots. It is an interesting question. The provisions that they should not take teaching posts was made at the suggestion of the universities themselves, which said that the young man who is coming over here from abroad to start his life in Canada, either temporarily or permanently, has to make many adjustments and has too many difficulties to handle to justify anything less than full time at his studies. We accept that. On the financial side we have had suggestions coming in to us, and quite recently have adjusted this situation. We now have the $2,000 basic grant, but have agreed to pay fees on top of the $2,000, so that a man who finds that his fees vary from university to university may be able to take care of that situation, and we have agreed to pay the fees, and probably the universities will bill us directly for that candidate.

We have also agreed in the case of a renewal, that a student coming from India for one year, and having a scholarship renewed, will not be obliged to go back to India and return again, and we have agreed to a $500 grant for such a renewal to mitigate his situation during the summer. That has taken care of what we thought was a provision that was a little too stringent.

Hon. BROOKE CLAXTON: That was not in effect the first year, but it came about as the result of our experience in the first year.

Senator CAMERON: Mr. Claxton referred to an economic study that was made. Is that available?

Hon. Mr. CLAXTON: Yes. We are going to print it as an appendix to our Annual Report, so it will be before you at your next session. It is a very interesting document, the first of its kind. The Annual Report will be tabled before 30 June. I may say that we are proposing to have a similar study made of symphony orchestras, with their full co-operation, of course, because they are only too happy to have it.

Senator THORVALDSON: Mr. Claxton, with regard to the ballet organizations and orchestras, may I ask if they are all professional or amateur performers?

Hon. Mr. CLAXTON: In the National Ballet of Canada the performers are all professional, both the orchestra and the ballet dancers, and of course they are of very high quality. This ballet is recognized throughout the world today as a good one. I may say the musicians receive rather more than the ballet dancers, except for the stars.

Senator CAMERON: One further question, Mr. Chairman. Mr. Claxton referred to the possibility of gifts being made to the foundation. As an example, one might be made to provide scholarships or encourage a program in public administration. I would take it that not too much can be done under the present terms of the Canada Council Act in that field. Is that correct?

Hon. Mr. CLAXTON: I am sure if the sum of money was large enough we could administer it efficiently and cheaply.

Senator CAMERON: I think this is a very important piece of enabling legislation, to have the machinery of Council used to handle a gift of that kind, which I believe could be done without too much difficulty. You might get grants in this field, which is one that is going to grow in magnitude at a very rapid rate.

Hon. Mr. CLAXTON: Certainly. If a rich person wishes to make a benefaction, he could avoid setting up a fondation himself by going to one with an established record of earnings and administration; it would be to his advantage to do so. We are quite prepared to ear-mark the funds for any purpose indicated by a testator or donor; it could be set up in memory of him, or called such and such a fund, and all we would do is administer it. With two years of successful administration and a very high return of earnings, I think we are now in a position to say that we are in business in this field.

Senator DUPUIS: Mr. Chairman, did I understand the Honourable Mr. Claxton to say that he expected in the near future to cover other fields than the arts, humanities and social sciences—to cover such fields, for instance, as the material sciences, like physiology and chemistry?

Hon. Mr. CLAXTON: No, Mr. Chairman, we would not be permitted to use the money of Canada Council for that purpose; but we were advised that if we received a bequest from some other person, ear-marked for that purpose, we could feel free to carry out that request.

Senator CAMERON: One final comment. Mr. Claxton referred to the renaissance of the arts in Canada. I think it is true that it had started and was under way before Canada Council got into action, but the fact that the Council has come into the picture at this time has given a tremendous stimulus to the arts

right across Canada. There is a feeling that there is some reserve power behind the arts now that never was there before. It has been a tremendous thing to all persons and organizations engaged in this field in Canada.

The CHAIRMAN: There being no further questions, I would ask the Honourable Mr. Claxton to accept our sincere thanks for his presentation here today.

I will now entertain a motion requesting that the committee be authorized to print 800 copies in English and 200 copies in French of its proceedings with respect to the report of the Canada Council.

Senator THORVALDSON: I so move.

The CHAIRMAN: Carried.

The committee will now adjourn to meet again Thursday April 23, when its witness will be Mr. Watson Sellar, the Auditor General of Canada.

—Whereupon the committee adjourned.

APPENDIX "A"

TYPES OF GRANTS

Period	University Capital Grants Fund		Scholarships, Fellowships and all Aid within 10 Categories (estimated)		Grants to Individuals for Travel and Special Projects		Grants to Organizations	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
		$		$		$		$
Up to March 31, 1958	13	4,084,300	467	945,000	12	27,950	53	739,200
April 1/58—March 31/59	29	8,732,264	570	1,212,800	48	78,005	175	1,387,563
TOTALS	42	12,816,564	1,037	2,157,800	60	105,955	228	2,126,763

DISTRIBUTION BY SUBJECTS

Period	Arts	Humanities, Social Sciences
	$	$
Up to March 31, 1958	859,850	852,300
April 1/58—March 31/59	1,382,338	1,296,030
TOTALS	2,242,188	2,148,330

Second Session—Twenty-fourth Parliament
1959

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE

on the Report of The Canada Council for the year ended March 31, 1958,
and the Auditor General's Report of the Balance Sheet for
the Council, as at March 31, 1958.

No. 2

THURSDAY, APRIL 23, 1959

THE HONOURABLE C. V. EMERSON, CHAIRMAN

WITNESS:

Mr. Watson Sellar, Auditor General of Canada.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

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Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Pratt
Quinn
Reid
Robertson
Roebuck
Savoie
Smith
  (*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
Wall
White
Woodrow (49)

* *Ex officio* member

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, Wednesday, March 18th, 1959.

"That the Report of the Canada Council for the year ended March 31, 1958, laid before the House on July 15, 1958, and the Auditor General's Report of the Balance Sheet for the Canada Council, as at March 31, 1958, laid before the House on August 20, 1958, be referred to the Standing Committee on Finance, in order to provide a review thereof pursuant to Section 23 of the *Canada Council Act*."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, April 23, 1959.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.30 a.m.

Present: The Honourable Senators Emerson—Chairman, Aseltine, Beaubien, Campbell, Connolly (*Halifax North*), Crerar, Euler, Haig, Isnor, Leonard, Macdonald, Molson, Petten, Reid, Savoie, Thorvaldson and Woodrow—17.

In attendance: The official reporters of the Senate.

Consideration of the order of reference of March 18, 1959, was resumed.

Mr. Watson Sellar, Auditor General, was heard and questioned.

Further consideration of the order of reference was postponed.

At 11.30 a.m. the Committee adjourned to the call of the Chairman.

Attest.

John A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, Thursday, April 23, 1959.

EVIDENCE

The Standing Committee on Finance, to which was referred the report of the Canada Council for the year ended March 31, 1958, met this day at 10.30 a.m.

Senator Clarence V. Emerson in the Chair.

The CHAIRMAN: Honourable senators, Mr. Sellar, we have a quorum, and I will call the meeting to order now. The witness today wlil be Mr. Watson Sellar, who will discuss the Canada Council report from the financial angle, and his Auditor General's report. Would you like to commence now, Mr. Sellar?

Mr. WATSON SELLAR (*Auditor General*): Thank you, Mr. Chairman and senators. As you know, by the act the Auditor General of Canada is named as the auditor of the Council.

Perhaps I am in a little difficulty by anticipating a question you may put to me, sir. In the audit report which I am required to make to the Council and also to the minister designated by order in council—in this case it is the Prime Minister—I have an observation, and you may question me on it. I am also to appear before the Public Accounts Committee of the House of Commons, and they will question me on it. If you wish to ask me any question on that I would ask your permission to be allowed to read my answers so that I can use the same language in both committees. I do not care what questions you ask afterwards, but I would like to get my formal wording in like language to both committees so that nobody could say I am wrong.

SENATORS: Agreed.

Mr. SELLAR: If that is agreeable, I have text in mimeographed form, a copy of which each senator can have, and you can follow my wording.

Mr. Chairman, I take it for granted, of course, that I will be interrupted from time to time when honourable senators wish to ask questions. The text reads as follows:

1. Section 22 of the Canada Council Act, c.3, 1957, directs that:

> 22. The accounts and financial transactions of the Council shall be audited annually by the Auditor General, and a report of the audit shall be made to the Council and to the member of the Queen's Privy Council for Canada designated under section 23.

2. A little unusual is the direction to report on the "financial transactions" as well as the accounts, so notice has been taken of parliamentary debates when the legislation was in Bill form. For example, on 5 February 1957 this exchange is recorded in the House Debates between a Member and the Prime Minister of the day:

> There is no limitation on the Council as to how the money should be applied?

> No, none; but the fact that they will be operating in public and that their operations will be reported upon annually by the Auditor General in a report that will be tabled in Parliament will ensure that the Council is very conscious that the Canadian public will feel that it is their money that is being administered by this Council; and they will want, I think, to use it in a manner that will commend itself to the majority of the Canadian people. (Debates of the House of Commons, p. 1,009).

3. The section has been regarded as calling for the equivalent of a parliamentary audit, with the attention of Parliament to be drawn to any transaction that may appear to merit parliamentary notice. The Auditor General has no responsibility beyond reporting; for example, any action to recover an ultra vires payment would presumably be in the field of the Attorney General of Canada.

4. Parliament (a) allocated the amount in the Capital Grants Fund between provinces, (b) limited grants to projects of universities or the equivalent, (c) directed that no grant exceed 50% of cost, and (d) stipulated that the project be one that would promote the objects of the legislation. On 18 January 1957, during the resolution stage, Mr. St. Laurent replied to a question whether the Bill would spell out precisely the formulas to guide the Council in the distribution of the $50 million for construction purposes. In part, he said:

> The terms are not determined in full detail, but it is provided that the contribution on the part of the Council will not be more than 50% of the cost of the building or the equipment being provided, and it will be for the kind of buildings required to carry out the objectives for which the Council is established. If buildings are required for other purposes in the university they should be provided for otherwise than through the Canada Council, the objective of which is to foster these developments of studies in the humanities, social sciences and arts. (p. 402).

Senator ISNOR: May I put a question to Mr. Sellar at this point?

The CHAIRMAN: Yes.

Senator ISNOR: With regard to the contribution on the part of the council being up to 50 per cent of the cost of the building or the equipment being provided, does that represent the total cost of the equipment? I have in mind a college of dentistry, a building costing $250,000 and the equipment costing another $125,000. Does this 50 per cent represent half of the total cost?

Mr. SELLAR: The test is if it is part of a construction project. You cannot give it for equipment in existing buildings. It has to be associated with a new construction project.

Senator ISNOR: What I have in mind is that the whole thing would be new, the building and the equipment, and my question is: would it cover the total cost of the two items?

Mr. SELLAR: My understanding is yes.

Senator ISNOR: Thank you.

Senator SAVOIE: And only for the objectives laid down here: the humanities, social sciences and arts?

Mr. SELLAR: Yes. My memorandum continues:

5. On 5 February 1957, Mr. St. Laurent, in replying to a similar question, said:

> Mr. Chairman, this resolution is not intended to provide for the establishment of increased facilities for a greatly increased number of

> students in engineering, medicine, dentistry and sciences. Under the Bill that would be introduced if and when this resolution is adopted the $50 million would be for capital assistance to projects that the Council would determine to be in furtherance of the general objectives of the Council. That would probably be construed as relating to other than specifically engineering, medical, dental or scientific faculties. It would probably be construed as limiting the participation within this $50 million to projects for the furtherance of the study and promotion of the humanities, the social sciences and the arts generally. That was the general instruction given to the draftsmen of the Bill and I think hon. members will feel that the general instruction has been implemented, although of course in quite general language, in the Bill itself. (p. 984).

6. It was because of statements like the foregoing that, in the audit, the review included an examination of the purposes of construction projects to observe whether any had interlocking utility to the university as a whole. The audit report includes the following observation:

> In the review of the transactions it was observed that grants of 50% of estimated cost were authorized with respect to the construction of student residences at four universities. These grants are now noted in order to illustrate a point. The Canada Council Act is not free from ambiguity, but section 9 contemplates that the Council make grants only "in furtherance of its objects", which are defined in the Act as follows:
>
>> The objects of the Council are to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences.
>
> No problem is present where a grant is made towards the cost of constructing a building having direct and immediate association with courses of study related to the arts, humanities or social sciences. What is now referred to is the legal position where the association might be regarded as indirect or remote. The status of the Council in administering this fund being similar to that of a public trustee, it is suggested that consideration be given to defining boundaries with respect to grants from the University Capital Grants Fund.

7. The audit perplexity might be illustrated this way: Two brothers attend the same university, one to study Arts, the other Engineering. Is the second boy ineligible to live in a students' residence because it had been financed, in part, by a Canada Council grant? Alternatively, if both are eligible, it follows that there is nothing to prohibit the residence being wholly occupied by engineering, medical, etc., students.

8. The Act does not empower the Council to associate conditions (other than financial) with a grant, and the then Prime Minister clearly indicated that in no way would the legislation detract from the freedom of universities in conducting their affairs. Therefore, it may be that the legislation contemplates that assistance be extended only where a construction project, at the time of grant, is exclusively and directly to promote study of the arts, humanities and social sciences.

Senator THORVALDSON: Mr. Sellar, with regard to these student residences with which we are dealing I wonder if there is any possibility of the grants applying only to universities that apply themselves to the arts, humanities or social sciences, or, do you know of any where they have scientific colleges.

Mr. SELLAR: I think the best thing to do would be to name them.

Senator THORVALDSON: Yes, please do.

Mr. SELLAR: St. Dunstan's Charlottetown, the University of New Brunswick, Queen's University and Victoria University, Toronto.

Senator THORVALDSON: I do not know St. Dunstan's, but I guess all the other colleges have science faculties, and so on. Queen's certainly does.

Senator MACDONALD: I do not know about Victoria itself, but it is affiliated with the University of Toronto. The scientific backing is there, but I do not know if there is any science teaching in Victoria.

Senator LEONARD: I think a student who is registered at Victoria can go to the school of science.

Senator MACDONALD: Yes, but it is not part of Victoria University.

Senator LEONARD: That is right. Victoria itself just teaches in the humanities.

Senator REID: Do I understand that in the regulations under which the Council functions there is no right to grant money for buildings? Is that generally the case? That is, there is no right to grant any moneys from the fund towards the construction of buildings for residences?

Mr. SELLAR: There is $50 million for the construction of buildings.

Senator REID: $50 million?

Mr. SELLAR: Yes, but not more than 50 per cent of the cost.

Senator SAVOIE: When the $50 million is spent what will happen?

Mr. SELLAR: Well, that is a question, sir.

Senator SAVOIE: How much of it has been spent so far?

Mr. SELLAR: You have the accounts for 1958 before you, as of March 31st. They are old, but they show $4 million. Mr. Claxton last week told you it was now $12 million.

The CHAIRMAN: I think Mr. Claxton said the fund would last about seven years.

Mr. SELLAR: Yes. You see, it is allocated by provinces. There is an allocation by provinces, and in that fiscal year the province of Quebec had not drawn anything, so the $14 million, roughly speaking, allocated to Quebec is still intact.

The CHAIRMAN: I see.

Senator SAVOIE: And if Quebec does not use it, what happens to it?

Mr. SELLAR: It stays there. It cannot be transferred to another province.

Senator THORVALDSON: When you refer to the $50 million being limited to buildings, that includes equipment, does it not, as well?

Mr. SELLAR: Yes. You see, regarding these residences, I am not thinking in terms of an ordinary boarding house. There is a trend in university thinking that it is desirable to have the students live on the campus and that residences suitably equipped with common rooms and with wardens, and so on, are desirable. That has been the practice in England for a great many years, and it is followed in many universities in the United States, and it is being expanded in Canada.

My trouble is the definition of the Act. The Council is to promote the objectives of the Act which is to assist the arts, humanities, and social sciences. It seems to me possible, and I might be quite wrong, that when this $50 million is expended university presidents will hope that the Government of Canada will make a further grant towards future construction. Therefore, it seems to me desirable that at an early stage Parliament should indicate to the Council if it is concerned over any interpretation that the Council is giving in selecting projects for assistance, so that a good state of mind continues to exist with respect to these funds.

The CHAIRMAN: Mr. Sellar, when these buildings are built, the Canada Council does not pay anything towards the upkeep of the building after?

Mr. **Sellar**: No.

The **Chairman**: It is finished then?

Mr. **Sellar**: The Canada Council's authority is simply to enter into an agreement that it will assist up to the extent of 50 per cent in the construction of a building.

Senator **Thorvaldson**: Do you know the approximate amount that was expended on these four student residences that were constructed? I ask that question because I am somewhat skeptical about these funds being used for the building of residences.

Mr. **Sellar**: I am now quoting from the First Annual Report of the Canada Council. I have the figures in my mind, but it is more convenient to use them from here.

The **Chairman**: On what page is that?

Mr. **Sellar**: Page 9. There is opposite the University of New Brunswick, Fredericton, $442,000. That was all for student residences. There is opposite—

Senator **Isnor**: Mr. Sellar, before you go on can you give us the number of rooms?

Mr. **Sellar**: No, I have not got that; I am sorry.

Senator **Isnor**: I just wanted that to make a comparison of the cost.

Mr. **Sellar**: Opposite Queen's University is $530,000, and that is correct.

The **Chairman**: Excuse me, Mr. Sellar, but you can double that, can you not? $422,000 is half, so that the building cost $844,000.

Mr. **Sellar**: At least, because the limitation of the Council is that it must not give more than half; it could give less.

The **Chairman**: That does not include the land?

Mr. **Sellar**: No, I doubt it. Then, St. Dunstan's University, Charlottetown, $142,000, and in connection with Victoria University, Toronto, the total amount is $975,000 of which $600,000 was earmarked for construction of residences.

Senator **Reid**: What about British Columbia?

Mr. **Sellar**: They received nothing that year in connection with residences. My recollection is—and you can correct me, senator, if I am wrong—that the University of British Columbia had two residences under construction at the time that this legislation was before the House, and I think the residences were probably finished before the bill was passed.

Senator **Savoie**: St. Joseph's University in Moncton, New Brunswick is putting up a students' building at the present time. Do you know if that university is getting a grant, or is going to get one?

Mr. **Sellar**: Not in the year concerned.

Senator **Savoie**: That is, in 1958.

Mr. **Sellar**: I have not the 1959 figures. We are just starting the audit of the 1958-59 accounts.

The **Chairman**: Mr. Sellar, that amount of money that was put aside for the province of Quebec is bearing interest, of course?

Mr. **Sellar**: It is. According to the Act, sir, the moneys of the University Grants Fund must be invested in securities of or guaranteed by the Government of Canada, and they are all invested in those securities.

The **Chairman**: Yes, but the interest on $14 million, would that be added to the $14 million or to the fund?

Mr. **Sellar**: It would be added to the $14 million; that is my understanding.

The **Chairman**: Because that fund would build up quite substantially in Quebec, would it not?

Mr. **Sellar**: Yes, sir.

Senator **Molson**: Mr. Chairman, the problem certainly in many of the universities with regard to student residences has become an acute one, and it seems to me that unless it was specifically intended that the Canada Council should not be allowed to make grants toward student residences it would be quite a handicap to some of the universities to have it so interpreted now. Would it not be possible in the construction of any student residences to have the new rooms designated as rooms for students in those faculties which are covered by the humanities and social sciences, and so on? Would that not fit into the definition?

Senator **Leonard**: I agree entirely with what Senator Molson says as to the desirability. It would be pretty difficult to keep say some vacant rooms merely because there were no art students available for them; and my own thought would be that if at the time that the grant is made, it complies with the objects, that should be sufficient to determine its propriety and legality, because it would be almost impossible to see as to the ultimate development of any building that was constructed. You might build a building for use as lecture rooms or for a library, but for all time to come you would not say that building must be used for that purpose and that purpose only. That would seem to me the only reasonable interpretation we can give. In so far as there is any doubt I would think it might be very desirable, as Mr. Sellar says, to resolve the doubt as to the future, but I would like to support the idea that residences do come within the present objects of the act. I have in mind a conversation I had just a short while ago with an executive of one of the largest industrial companies in the world, located in England, and they take into their employment at least 100 university graduates every year. They found that most of their graduates were coming from four universities in Great Britain. They were so interested in this that they did a research job to analyse why it did appear they were supplying that kind of younger men to be trained as executives, and they came to the conclusion that these four universities were all residential universities, and that the one thing that differentiated them from the other universities was the proportion of students in residence. They attribute their success and development to the type of student and graduate that had been developed in a residential university.

Senator **Reid**: Is it not possible that this amount of $50 million might go for nothing but residences because the demand for them is so acute? I do not think that would come under humanities, although it might. The Council, as I understand it, has to consider the arts and social sciences as well. I do not think it was the object of the fund just to provide for residences. If it is going to develop into a building fund, personally I would like to know. For example, certain universities are getting help. In British Columbia we have been taking care of ourselves. If we are entitled to get help for residences, I want to pass it on before the other provinces grab it all. I want to find out what is going to happen.

Senator **Molson**: We must not forget that most of the universities are raising very large sums from the companies and corporations and individuals at the same time, and those funds may be going to these other purposes. It is not all black and white in these cases.

Senator **Leonard**: Then again, these figures indicate that not too large a proportion of the grants that the Council has made are made for residences. Is that not right?

Mr. **Sellar**: That is quite right. I gave you the four amounts in that year. I might use your own statement to illustrate what my concern is. You speak of an industrial company finding that a certain type of student employed

was the best one, and that he came from a university that is residential. I do not assume they were employing a student in the arts, humanities and social sciences.

Senator LEONARD: I think they were, Mr. Sellar.

Mr. SELLAR: But I think it would be equally true were they in engineering or like activities. My only trouble is the definition of this act and the requirement that grants shall be for the objectives of the act; how are you going to police it? I think the only way is at the outset. I am not opposed to this money being used for residences, but I am bringing it to your attention so that the point be cleared up. You could lead from residences into chapels, or to powerhouses for universities, and so on. I think you have to have a boundary. That is all I have to say. I have no view on the subject, I am merely reporting a situation.

Senator LEONARD: I was merely trying to suggest as far as this committee was concerned that if we had any view we might resolve your difficulty by knowing what it is.

Senator REID: Could you explain how the $14 million comes to be set aside in Quebec? Is that the only province that has the money set aside? Of course, I know they are not using it at the moment, but how does that province happen to have $14 million set aside?

Senator SAVOIE: It is only on a pro rata basis, is it not?

Mr. SELLAR: Senator Reid, the act provides that the $50 million shall be allocated by provinces in accordance with their population, and that in turn the Canada Council allocates the money within the province by the population of the various universities they treat as coming within its ambit. Now, the first province you will be interested in is British Columbia. The amount of money marked for British Columbia is $4,357,000, and so on, down the line. The largest one is the province of Ontario, with $16,838,000.

Senator SAVOIE: What about New Brunswick?

Mr. SELLAR: New Brunswick is $1,727,000.

Senator SAVOIE: Has any of that amount been paid out?

Mr. SELLAR: I am dealing with accounts of last year. Of the $4 million granted last year $1.3 million had been spent by the time the accounts were closed, and $2.7 million reserved for expenditures. Now, there was money for the universities of New Brunswick, and I imagine some progress payments were made to New Brunswick, but I will not say for sure, sir. That statement I was referring to, Mr. Chairman, is to be found at page 41 of the Canada Council report.

The CHAIRMAN: I was wondering, is there any time limit on these expenditures that are allotted?

Mr. SELLAR: No, there was a suggestion at one time that a 10-year limit be imposed by the act, Mr. Knowles in particular referred to that more than once in the House of Commons but the Prime Minister said, "No, there is no time limit on the expenditures". Incidentally, sir, while it is none of my business I cannot understand why the Canada Council picked March 31 for a year end.

Senator CRERAR: What is that again?

Mr. SELLAR: I cannot understand why Canada Council picked March 31 as a year end. It is required to make a report within three months after the year end, and I am required to have my report ready within three months. We do that quite easily but it means that it is tabled in Parliament when the session is about ended. When Mr. Claxton was here last week he was

obviously embarrassed by having to pull out of the air or at least treat with the 1957 accounts when he was talking in terms of what was done in 1958-59. It is not set by the act but by law, and I do think a different period would make it more interesting to you.

Senator MACDONALD: I suppose the date was chosen because it coincided with the end of the fiscal year?

Mr. SELLAR: That is the Government's fiscal year, but the Canada Council is wholly independent of the Government.

Senator MACDONALD: Do you know what the fiscal year is for other Crown corporations?

Mr. SELLAR: They vary, sir. The Canada Wheat Board, for example, has its fiscal year end at the end of the crop year. The fiscal year ends at December 31st for Polymer, Canadian National Railways, Central Mortgage and Housing Corporation, the National Harbours Board, Eldorado, and some others. Then again for others it is March 31st. Generally those that are dependent upon grants from the Government of Canada use March 31st. Those that are operating independently pick December 31st.

Senator MOLSON: Would it be helpful if this year end were changed?

Mr. SELLAR: I would think so. I don't know what the considerations were that influenced the Council to decide on March 31st. They undoubtedly had good reasons.

Senator REID: It would at least bring the information up to date and instead of dealing with 1957 we could be dealing with 1958 right now.

Senator THORVALDSON: That would conform with the suggestion you have just made, Mr. Sellar, that Crown corporations which depend upon Government grants tend to have their fiscal year at the end of March, and of course this corporation depends entirely or at least in part on Gvernment grants.

Mr. SELLAR: No, not at all.

Senator THORVALDSON: What I mean is that it is entirely based on the fact that it received a Government grant. I know it does not get any annual grant.

Mr. SELLAR: It received its money in the month of April, 1957, and it may want to take that as the year end. I am merely talking from the point of view of the convenience of this committee, that I would be happier today if I were talking about an audit I had just finished rather than one that was made 12 months ago.

Senator THORVALDSON: I think we can take it for granted the Council expects in due course that it might be fortunate enough to get further Government grants.

Mr. SELLAR: I don't know. I just threw out a suggestion. I think it would be much more informative to you if you had fresh accounts rather than accounts made a year ago.

Senator LEONARD: Would that require a change in the act?

Mr. SELLAR: No, sir, just a change in a bylaw. I was asked a moment ago about Crown corporations. In the Financial Administration Act it provides that the financial year of a Crown corporation shall be the calendar year, unless the Governor in Council otherwise directs.

Senator MOLSON: It would have been perhaps more normal for the Canada Council to have its year end coincide with the end of the calendar year?

Mr. SELLAR: Yes, sir or it might be more normal for an institution such as this to have its year end on the 31st of August, before the school year started.

Senator REID: All it would require would be a recommendation from the Government, is that right?

Mr. SELLAR: No, sir, it is wholly within the control of the Canada Council itself. This Council is wholly independent of the Government. The Government has only two powers with respect to the Council. It appoints the members of the Investment Committee, and a director and an associate director.

The CHAIRMAN: Do they not appoint the 21 members of the Board?

Mr. SELLAR: Oh, yes.

The CHAIRMAN: And as vacancies occur the Government names new members?

Mr. SELLAR: Yes.

The CHAIRMAN: I would like to have it put on record that the members of Council do not receive any remuneration. I believe that is true, is it?

Mr. SELLAR: The act provides that the chairman and the vice-chairman may be paid a salary. There is no salary paid to either of them.

The CHAIRMAN: But there could be?

Mr. SELLAR: Yes, according to the act.

Senator REID: Are they paid for attending meetings?

Mr. SELLAR: There is an order in council providing that an allowance of $50 may be paid to members attending meetings, and that includes the members of the Investment Committee. In addition they may receive travelling expenses.

Senator EULER: Do they pay it?

Mr. SELLAR: I don't think some take it.

The CHAIRMAN: How about travelling expenses to the meetings? Are the meetings all held in Ottawa?

Mr. SELLAR: Most of them.

The CHAIRMAN: They would pay the travelling and hotel expenses?

Mr. SELLAR: Yes. As far as I know, no member is trying to make any profit out of this.

The CHAIRMAN: No. I just wanted to have it put on the record.

Mr. SELLAR: A recent amendment to the order in council provided that $50 a day allowance might be paid to the chairman and to the vice-chairman. I am satisfied that in the first year of operation Mr. Claxton financed most of his costs out of his own pocket.

Senator EULER: I should know this, but who are the other members of the committee? Mr. Claxton is chairman. Who are the others?

Mr. SELLAR: Would you like them by provinces?

Senator EULER: Not necessarily.

Mr. SELLAR: They are contained in the First Annual Report in alphabetical order, and I will treat them that way. They are: Mrs. R. R. Arkell, British Columbia; Mr. Jules Bazin, Quebec; Dr. L. W. Brockington, Ontario; Mr. Samuel Bronfman, Quebec; Mr. Frederick R. Emerson, Newfoundland; Mr. Eric L. Harvie, Alberta; Dr. J. F. Leddy, Saskatchewan; Mrs. Angus L. Macdonald, Nova Scotia; Dr. W. A. Mackintosh, Ontario, of Queen's University; Dr. N. A. M. MacKenzie, British Columbia, of the University of British Columbia; Dr. Frank MacKinnon, Prince Edward Island; Sir Ernest MacMillan, Ontario; Dr. Eustace Morin, Quebec; Madame Alfred Paradis, Quebec; Miss Vida Peene, Ontario; Mr. John A. Russell, Manitoba; Mr. E. P. Taylor, Ontario; Major General George P. Vanier, Quebec, and Mr. David H. Walker, New Brunswick.

Senator MACDONALD: Is that the full board?

Mr. SELLAR: That is the full board other than the chairman and the vice-chairman. And then there is the Investment Committee.

Senator MACDONALD: Are there any vacancies on the board?

Mr. SELLAR: No, sir.

Senator EULER: Do they always act as a full board or do they act as provincial segments?

Mr. SELLAR: They always act as a full board. They have an executive committee, of course. The full board is required to meet at least three times a year.

Senator REID: Do they meet in various places or always in the same place?

Mr. SELLAR: I am not sure of that, sir. They are supposed to meet in Ottawa but they can meet elsewhere.

The CHAIRMAN: I think they meet mostly in Ottawa. I asked Mr. Claxton that question. By the way, for the benefit of those honourable senators who were not here last week when Mr. Claxton appeared before the committee, he said that the attendance at the council meetings was very, very good, practically 90 per cent. I refer to the attendance at each meeting.

Senator SAVOIE: Is Major Walker from Saint John?

Senator LEONARD: Walker is the author.

Senator SAVOIE: What are his initials?

Mr. SELLAR: David H.

Senator CRERAR: Who are on the Investment Committee?

Mr. SELLAR: There are five each from Ontario and Quebec.

Senator HAIG: How many?

Mr. SELLAR: Five each from Ontario and Quebec, two from British Columbia and one from each of the other provinces. In reply to your question, Senator Crerar, Mr. Graham Towers is Chairman of the Investment Committee, and the other members appointed by the Governor-General-in-Council are Mr. James Muir of the Royal Bank of Canada, and Mr. J. G. Hungerford of the National Trust in Toronto.

Senator CRERAR: Hungerford?

Mr. SELLAR: Yes, sir, and the Council appoints two. Mr. Brooke Claxton is a member, ex officio, and Major General Vanier has been named by the Council.

Senator CRERAR: Well, it is a good Investment Committee.

The CHAIRMAN: Are there any restrictions on the investments? I see there are quite a few good common stocks in this.

Mr. SELLAR: During the debate in the House of Commons Mr. St. Laurent left the door wide open. In fact, he indicated that they might think of the higher-grade mining stocks, but I think he just said that in passing. Everybody agreed that they would be careful, and this Investment Committee has kept them in the orthodox stocks.

The CHAIRMAN: I think the Honourable Brooke Claxton said that the investments provided a return of 5.3 per cent on the money, and 5.6 per cent on the other fund. That seems to be a good return.

Senator EULER: In making the grants which they do are they restricted to the revenues from the $100 million, or can they make grants out of the capital?

Mr. SELLAR: No, Senator Euler. There are two funds. There is an Endowment Fund, and they cannot spend any of the principal of the Endowment Fund. The first charge on the Endowment Fund is administration expenses, then they can grant scholarships and do anything they like with that

so long as it is within the framework of the Act. The other $50 million is the Capital Construction Fund, and the principal of that is to be spent as well as the interest from it.

Senator **EULER**: I suppose this question has been answered already, but to what extent have they spent the principal?

Mr. **SELLAR**: You are now talking of the construction grants?

Senator **EULER**: Yes.

Mr. **SELLAR**: The total amount that is committed up to date, as I understand it, is approximately $12 million. For the purposes of the accounts before you today it is $4 million at the end of the last fiscal year, but $12 million is committed up to date. Now, you would say that leaves $38 million, but there are interest credits on the $50 million that bring it up, and I think you will find by reference to the evidence of Dr. Trueman given at your last meeting that he thinks there is about $50 million on hand now, or will be on hand.

Senator **REID**: What amount will you obtain from the $50 million invested each year?

Mr. **SELLAR**: You are talking of which part?

Senator **REID**: The one for the humanities—the Investment Fund.

Mr. **SELLAR**: You are talking now of the Endowment Fund?

Senator **REID**: Yes, the endowment.

Mr. **SELLAR**: I think Mr. Claxton told you the other day that the return this year is something like 5.8 per cent. I have not looked at the accounts for this year, and I do not want to go back to those old accounts. It was slightly over 5 per cent last year.

The **CHAIRMAN**: Mr. Sellar, you would not have any knowledge of the amount of money that Canada has received from these trust funds in the United States such as the Carnegie Foundation or the Ford Foundation in the last four or five years?

Mr. **SELLAR**: No, sir.

The **CHAIRMAN**: I asked that question of Mr. Claxton, but I do not think it was quite fully answered. He did not know.

Mr. **SELLAR**: No. I read his answer with great interest last night because it was information to me, sir.

Senator **REID**: It is certainly to be commended if they are getting 5.8 per cent on their Endowment Fund.

Mr. **SELLAR**: Well, you have to bear in mind that Mr. Graham Towers is devoting a lot of his personal time to looking after the investments, and neither he, James Muir, Mr. Hungerford, nor Mr. Vanier are sitting back doing nothing, and we all know that Mr. Brooke Claxton is a ball of fire all the time when working on anything that he is interested in.

The **CHAIRMAN**: Are there any further questions that honourable senators would like to ask of Mr. Sellar?

Senator **ISNOR**: Mr. Sellar, I was interested in your comment about the change of date from March 31 to December 31.

Mr. **SELLAR**: Yes, sir—well, to some other date; I do not say, necessarily, to 31 December. All that I was thinking of, sir, is that it would be more informative to this committee because this report, I assume, will come before you annually, if you have a report that is just two or three months old at the most, that would be better than having one 12 months old.

Senator ISNOR: Would you say the same thing about the fiscal year of the Government?

Mr. SELLAR: No, sir. You cannot change that because you have the problem of interim supply; you would have to have a very early Fall session, and that would not be popular.

The CHAIRMAN: Mr. Sellar, you are to appear before the Commons Committee?

Mr. SELLAR: Yes.

The CHAIRMAN: I suppose anything as to a change of date would have to originate from the Commons. Would you mind bringing that up?

Mr. SELLAR: Yes, I would be very glad to.

The CHAIRMAN: You could inform them that that is the wish of the senators.

Mr. SELLAR: Yes, sir. Before you come to any conclusion please consult with the Canada Council because I make so many blunders in this world that I know I am not infallible. You should decide, I think, only after getting all points of view.

The CHAIRMAN: Yes. Are there any other questions, honourable senators?

Senator HAIG: I think we have covered it pretty well.

—Whereupon the committee adjourned.

Second Session—Twenty-fourth Parliament
1959

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE
on the Threat of Inflation in Canada

NO. 1

TUESDAY, MAY 26, 1959

THE HONOURABLE CLARENCE V. EMERSON,
Chairman

WITNESS

F. A. Knox, B.A., F.R.S.C., Professor of Economics, Queen's University.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

THE STANDING COMMITTEE ON FINANCE

Chairman: The Honourable Clarence V. Emerson.

The Honourable Senators:

*Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Buchanan
Burchill
Campbell
Choquette
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Croll
Dupuis
Emerson
Euler
Farris
Fraser
Gershaw
Golding
Haig
Hayden
Higgins
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Pratt
Quinn
Reid
Robertson
Roebuck
Savoie
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
Wall
White
Woodrow (49)

**Ex officio* member

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, TUESDAY, April 28, 1959.

"Pursuant to the Order of the Day, the Senate resumed the postponed debate on the motion of the Honourable Senator Wall, seconded by the Honourable Senator Leonard:

That the Standing Committee on Finance be instructed to study the threat of inflation in Canada;

That the Committee have the authority to send for persons, papers and records, and to report from time to time.

After debate, and—

The question being put on the motion—

The Senate divided and the names being called they were taken down as follows:—

CONTENTS

The Honourable Senators

Baird,
Basha,
Beaubien,
Bois,
Boucher,
Bradette,
Connolly (*Halifax North*),
Connolly (*Ottawa West*),
Crerar,
Croll,
Dupuis,
Euler,
Farquhar,
Gershaw,
Golding,
Grant,
Hodges,
Hugessen,
Isnor,
Jodoin,
Lambert,
Lefrançois,
Leonard,
Macdonald,
McGrand,
Petten,
Pouliot,
Pratt,
Reid,
Robertson,
Roebuck,
Savoie,
Smith (*Kamloops*),
Smith (*Queens-Shelburne*),
Stambaugh,
Taylor (*Westmorland*),
Vaillancourt,
Veniot,
Wall,
Woodrow.—40.

NON-CONTENTS

The Honourable Senators

Aseltine,
Brunt,
Buchanan,
Emerson,
Gladsone,
Haig,
Higgins,
Horner,
MacDonald,
Methot,
Pearson,
Quinn,
Sullivan,
White.—14.

So it was resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, May 26, 1959.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.15 a.m.

Present: The Honourable Senators: Aseltine, Baird, Barbour, Beaubien, Brunt, Burchill, Choquette, Crerar, Croll, Euler, Gershaw, Golding, Haig, Higgins Leonard, Macdonald, Reid, Robertson, Smith (*Queens-Shelburne*), Thorvaldson, Turgeon, Wall and White.—23.

In attendance: the official reporters of the Senate.

In the absence of the Chairman, the Deputy Chairman, Honourable Senator Leonard, presided.

Consideration of the order of reference of April 28th, 1959, was resumed.

F. A. Knox, B.A., F.R.S.C., Professor of Economics, Queen's University, Kingston, Ontario, was heard and questioned by members of the Committee.

The Deputy Chairman reported the Steering Committee had recommended the employment of an economic consultant.

Following discussion, and on motion of the Honourable Senator Croll, seconded by the Honourable Senator Robertson, it was RESOLVED to report recommending that Professor John J. Deutsch be retained as Economic Consultant, at a per diem rate of $100.00, and expenses.

The further consideration of the order of reference was postponed.

At 12.15 p.m. the Committee adjourned to the call of the Chairman.

ATTEST.

John A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, Tuesday, May 26, 1959.

EVIDENCE

The Standing Committee on Finance, which was instructed to study the threat of inflation in Canada, met this day at 10.15.

Senator Leonard in the Chair.

The ACTING CHAIRMAN: Honourable senators, we have a quorum, and therefore may we come to order.

First, I would like to express my regret and your regret that Senator Emerson is not occupying the chair. Unfortunately, Senator Emerson's mother died a week ago and he had to return to Saint John. I am sure you all join with me in expressing to him our sympathy in his loss. It falls to me, therefore, as Vice-Chairman to try to fill his shoes, and with your kind consideration I shall do my best.

As you know, the Senate has instructed this committee to make a study of the threat of inflation, and in keeping the traditional attitude of Senate committees our purpose must be to make a constructive and objective study. I am happy to say that so far in the steering committee and in the main committee there has been unanimity in the planning and organizing of our study.

This is a very comprehensive and complex subject, and we have a limited time at our disposal. Nevertheless, I think our deliberations can make a very useful and constructive contribution towards dealing with the problem of inflation in Canada.

There are some matters—one in particular—which the steering committee wishes to report to the full committee. But with your permission, I am going to suggest that we leave that until after we have heard the witness we have with us this morning. Probably the committee may wish me to deal in private with the report of the steering committee, at the end of this meeting. If it is agreeable to you I would suggest that we go ahead with the hearing of the witness and deal later with the report of the steering committee. Is that agreeable?

Some hon. SENATORS: Agreed.

The ACTING CHAIRMAN: Our first witness is Professor F. A. Knox, B.A., F.R.Sc.

Professor Knox was born in Ontario, a fact with which some of us are quite happy but which others probably think is a handicap which he had to overcome. He served in the army in World War I. He then attended Queen's University, Harvard University and the University of Chicago. He was appointed to the staff of the Department of Political and Economic Science at Queen's University in 1924, and he has taught economics ever since, specializing in money, banking and international trade.

He has had considerable experience with commission work. He was on the technical staff of the Macmillan Royal Commission on Banking and the Rowell-Sirois Commission, and he was chairman of a committee appointed

by the Government of the Province of Ontario to inquire into the economic position of the gold mining industry in Ontario.

For some years he was editor of The Canadian Banker, which is the official publication of the Canadian Bankers' Association.

At some time during the last war he was on the staff of the Department of Finance at Ottawa.

I am sure that we are all very grateful to Professor Knox for coming here to be with us today and to give us the benefit of his knowledge and experience. Without further adieu I shall ask Professor Knox if he will be good enough to carry on with his presentation. I understand that he has prepared a written statement, and that copies are available to all members of the committee. If it is agreeable to you and to Professor Knox I suggest that he go ahead with his statement and that when he is through with presenting his statement he will be ready to answer questions.

Prof. KNOX: Thank you very much, Mr. Chairman. With your permission I will remain seated.

In this statement I have set out an explanation of the nature of inflationary forces and urge that stability of the price level should be a prime objective of national economic policy. To keep attention focussed on what seems to me the essential points about the threat of inflation I have ignored many aspects of the problem. Some may feel that its international aspects are, for instance, too important in Canada to be set aside even in a preliminary exposition. I feel however that discussion of these and other more technical aspects of the matter cannot usefully be undertaken until the matters on which I propose to concentrate have been treated. My understanding of the wishes of the committee is that a more general discussion would be an appropriate beginning for your inquiry.

* * *

Two great economic disasters have overwhelmed nations from time to time, deep depression and great inflation. Depression has come both to strong and to weak countries; extreme inflation of the price level seems to arise mainly when economic pressures become greater than the political and social cohesion of a country can cope with. Some nations, having avoided the actual destruction of the value of the currency, have, nevertheless, such a record of successive currency depreciations that combatting current inflationary pressures is made more difficult by public anticipation of failure. In the United States and Canada depression has been experienced in all its disastrous extent but not until recent years have there appeared symptoms of that popular fear of serious inflation which makes success in the application of fiscal and monetary controls less sure. If economic policies designed to restrain both inflationary and deflationary tendencies are to be effective, the confidence of the public in the long-run stability of the purchasing power of the currency must be preserved.

I might interject, gentlemen, and say that if there is one essential point in my presentation it is that. May I repeat that sentence?

If economic policies designed to restrain both inflationary and deflationary tendencies are to be effective, the confidence of the public in the long-run stability of the purchasing power of the currency must be preserved. To prevent a serious and continued rise in the general price level is essential not only as a matter of justice between classes but as a basic condition for continued economic growth.

Fortunately public confidence in the currency seems pretty hard to destroy. In Great Britain and the United States, for instance, the record since 1800 shows great and long-continued swings in the general wholesale price level.

Yet over that long period their indexes of wholesale prices show no clear trend; increases have, in time, been offset by decreases. If the change in prices is slow and if the trend is interrupted frequently by sharp reversals in the direction of price change, fears of inflation do not become widespread; confidence in the rough stability of the value of the currency remains. It is when the trend is strongly upward, when periods of price stability or decline are few and short, that doubts arise. If at the same time the belief spreads abroad that the failure of prices to fall is no accident, that the economic system has in fact acquired an "inflation-bias", such doubts are strengthened and people try to protect themselves against the rising price trend they fear may be permanent. When there is a divided opinion as to the probable direction of price movements, relatively small interferences by the fiscal or monetary authorities may affect the trend; when the public becomes convinced that the trend is firmly upward it becomes almost impossible to reverse price movements even by massive action by the monetary authorities.

Fortunately we are far from having reached that position in Canada. It is true that since the beginning of this century the trend of prices (with great fluctuations of course) has been upward in Canada as in most western countries; since the end of the second world war it has been sharply so. The possibility of a great fall in prices which the depression of the 1930's emphasised seems more remote as successive recessions prove short and shallow and have less and less downward effect on prices. There is, moreover, a growing public awareness that the economic system is becoming less tolerant of falling prices. Large business corporations, powerful labour unions and pressure groups of other kinds now influence greatly the decisions which determine price movements. Competition may still be as keen as ever but it seems to express itself in price reductions much less frequently than it used to do. So the conviction arises that in the future, periods of rising prices are much less likely to be offset by periods of falling prices than has been true hitherto. Some think that the current behaviour of the prices of stocks and bonds arises in large part from the efforts of individuals to protect themselves from the inflation of prices they think all but inevitable. This opinion is by no means universal however; there is yet opportunity to check the growth of "inflationary opinion", to restore a healthy and widespread uncertainty about the future course of prices.

In working to that end Canada has two great advantages. We are equipped with the legal arrangements, the institutions and the customs of acting required by modern fiscal and monetary policies and I think we may say, are skilled in operating them. We do not have the handicap of a record of price inflation more extreme than that of the United States or Britain. The inflationary pressures with which we contend are common to other western countries and we seem to have done at least as well as they have in contending with them. Our greatest danger of lack of success in keeping price movements within a tolerable range comes neither from a poor record in the past nor from lack of the management capacities required. It arises rather from confusion in the national mind about the nature of the struggle in which we are engaged and the measures that may have to be taken to succeed. We need more thorough public presentations of the points of view of the different interests involved, industry, labour, the farmers, financial institutions and the various levels of government and we need more appraisals of these positions by persons expert in such matters. In the remainder of this statement I comment briefly on some of the problems which would be sure to arise in such a public debate.

We may begin by enquiring into the circumstances under which serious inflationary pressure is likely to arise. War provides at once the most striking

illustration of serious inflationary pressures and very pertinent indications of how they may be controlled. Before war has been underway long, most of the belligerents will have reached the position where further expansion in the production of war goods is only possible by using plant and equipment which has hitherto been used to manufacture consumer goods. Restriction of consumption is required. Taxation aside, the earnings of workers are not reduced by this shift in the nature of the goods produced; on the contrary all-out war production is likely to increase the income consumers have available to spend. If they spend their earnings freely on the now-reduced volume of consumer goods prices are bound to rise as the only available means of rationing scarce goods amongst would-be buyers; prices will rise until some buyers refuse to pay the prices demanded; the goods then go to those who will. In the first world war when this process was almost unrestricted the resulting rapid rise of prices had a most unfortunate effect on war production and costs. The new high prices of consumer goods tempted producers of war materials back into their old lines of business and forced governments to pay ever higher prices for guns and shells. War costs rose and a large part of the expenditures of governments had to be covered by a process which greatly expanded the volume of money.

Obviously what is required in such a situation is a restriction in spending by the consumer to such amounts as will just buy the smaller volume of goods at the old level of prices. What can't be taken from the individual income receiver by taxation or abstracted from his bank account by bond drives can, in the extreme case to which we came in the second world war, be left on his hands because consumer goods are rationed and there is nothing on which he may spend his excess earnings. Rationing, and the price control which went with it, shared the scarce consumer goods more equitably than sharing by price inflation did in the first world war; the war-time price rise was checked and the inflation-produced rise in the costs of war restrained.

Yet, despite strong public support for the application of high war taxes and for the buying of government bonds, it was not possible to recover from the public in this way enough funds to finance the costs of war completely. Some resort had to be made to the first world war device of borrowing from the banks as well as from the public. Inflationary pressures were therefore not entirely avoided, rather they were prevented from having their full effects upon prices by rationing and by price controls. But the higher cash balances which thus came into the hands both of consumers and business men were to play a most important role in the rise of prices which followed the war. When war-time controls were removed consumers and businessmen alike used these cash balances to increase market demand for consumer and investment goods much beyond what currently earned incomes and profits alone would have permitted. Prices therefore rose in 1947 and 1948 and again in 1950-51 when the war in Korea touched off another buying spree. Whether by the less precipitate abandonment of government rationing and price controls, particularly in the United States, and by the use of more restrictive fiscal and monetary measures this postwar inflation might have been mitigated or avoided is likely to remain a subject for controversy for some time to come. But there can be little doubt as to the source of inflationary pressures during wars and the years that follow them. In war governments must buy the goods and services required whether the expenditures can be covered by taxes and borrowing from the public or not; finance must be subordinated to production. When the war is over the consumer, well-provisioned during the war with cash for the coming struggle for scarce consumer goods, becomes the new source of inflationary spending. The producer, similarly well-financed, raises his spending also in reconstructing his plant and equipment to turn out the goods consumers demand.

There is an important difference between the war and postwar cases however. War's demands are insatiable; the consumer's are not. Conversion of war-time production facilities to the manufacture of consumer goods soon ends the scarcity, consumer demands fall off, the postwar price boom collapses. Heavy inventories which are a source of gain when prices rise now bring loss. Production is curtailed below the reduced demand so that inventories may be cut, the resulting fall in incomes earned in production reduces public demand for goods yet again and so on, cumulatively. Eventually inventories return to a more normal size, demand is supplied mainly from an enlarged production, more incomes are earned in this production; recovery is under way.

When the war is over and the consumer has used up most of his excess cash balances one might reasonably expect a measure of stability in the economic system. Certainly when the consumer's demand is limited by the income he earns in producing consumer goods he is not likely to be a primary source of inflationary buying. Yet the record shows that periods of high demand, of over-full employment and rising prices do occur in times of peace.

For such periods of "prosperity" investment spending by business men is mainly responsible. And I might say that I use the words "investment spending" here not in the broad sense of the investment of money in any asset, but rather in the sense of the purchase of capital goods, plant, machinery, equipment, the accumulation of inventories by the business men themselves. The main source of the demand for consumer goods is the income earned in their production; the two, therefore, tend to rise and fall together. When business men spend funds to add to inventory, to purchase more efficient machinery and equipment or to build new factories, new incomes are generated in producing goods and new demands for consumer goods consequently appear. During recovery the new demand for capital goods and the enlarged demand for consumer goods may both be met from expanded production. When full employment is reached, however, a choice has to be made; a yet greater production of capital goods now involves some limitation on the growth of consumer goods production. If the choice falls to capital goods the war-time situation will be reproduced; incomes will grow and with them demand for consumer goods but without an offsetting growth in the supply. Inflation of prices is likely to be the consequence. Since the public does not recognize any priority for the plans of private business men as against their own, governments cannot apply war-time controls to prevent the rise of prices. Consumer and producer are left to fight it out in the market place as, indeed, the government and the consumer did for a considerable part of the first world war.

In this competition the buyer of capital goods has much less power than has the government in time of war. He cannot hamper buyers of consumer goods by taxing them or otherwise limiting their financial resources; nor does he have at his command the ultimate financial power, the sovereign power to create money. He is limited to such cash as he may have accumulated and to the funds he can raise through the capital market or the banks. Of much greater importance as a limitation on the rise of prices during such booms is the fact that the demands of the buyer of capital goods are much less insistent than those of governments during war. Individual producers do not go on extending plant and installing new equipment year after year; they soon reach the size of plant and type of equipment they think adequate for the time being. When the machines which embody new methods are generally in use there is a falling off in the demand for new machinery till some new invention revives it. Moreover, the very inflation which this boom-time capital goods buying creates raises the costs of capital goods and reduces the profitability of installing more of them. Eventually therefore such periods of higher production and "prosperity" come to an end.

They are usually followed by depressions for the same reasons that declining activity follows the petering out of the excess consumer demand which follows wars. There is therefore every prospect that the price increases which come about in the boom will be reversed in the depression. In other words there is little ground for apprehending serious, enduring price inflation from the functioning of a purely private enterprise system; the probabilities, indeed, seem to me to be all the other way.

We may now ask what bearing these comments have on our present position and problem. During the postwar period the behaviour of the index of wholesale prices falls clearly into two periods: one of rapid and extensive rise in 1947-48 and again in 1950-51, and, after a fall in 1952, one of relative stability since. The first was mainly due to the usual postwar spending by consumers and businessmen accentuated by easy money policies and export-stimulating action. In the second period, though the rise in output has been about as fast as in the first period, the price increases have been of the sort one might well expect from the usual peace-time private investment spending booms discussed above.

The question which this distinction of periods in the postwar price rise raises is one which has dogged the minds of businessmen and governments for years past: How long is this peace-time capital boom likely to last? Will it be followed by serious depression, as such booms have been so often in the past? Were our economy like that of the 19th century, or the inter-war years, it would be proper to expect that the recent high rate of economic growth would in time be sharply reduced giving place to depression. But the economic system is not the same; it has been fundamentally altered in its functioning. For one thing there is the new insistence that governments shall act to prevent the human injustice and productive waste of large-scale unemployment. Fluctuations in the level of private investment spending are now to be mitigated by fiscal and monetary policy. When income and profits fall, current tax payments become smaller also; unemployment brings payments from the insurance fund which help to sustain consumer buying; monetary action hastens the easing of credit conditions. Governments may also actively intervene by cutting tax rates and increasing spending, as on public works, to offset somewhat the decline in the private demand for goods and labour. It is tempting to conclude from the mildness of the recessions of 1954 and 1957-58 that these new policies to prevent recessions turning into severe depression have been successful.

It is too early, I fear, to draw so hopeful a conclusion with assurance. For there is a second aspect of the postwar economy which distinguishes it sharply from that of the interwar period and which may have been as influential on the course of events as these anti-depression policies. Never before has spending by all levels of government been so large year in and year out, in boom and in depression; never has it grown so persistently; never in peace time has it been so high a percentage of the total national expenditure in Canada as it now is. You are all well aware of the reasons for this growth. For the moment I am concerned not with its causes but with its consequences. Expenditures of all governments on goods and services alone (which are now almost as large as either our export sales or private investment spending on fixed capital goods) must have a stimulating and a stabilizing effect on the Canadian economy of sizeable proportions. The assurance that this very considerable market demand (in 1958 $6 billion out of a gross national expenditure of $32.2 billion) will be there in recession as in boom permits the private producers directly affected not only to stabilize their operations but to expand more confidently in other directions. Through the network of relationships with other producers these consequences will spread in the economy. There is also an indirect effect to be expected which may be of even greater importance. An assured income

through all the phases of the business cycle, such as the workers in the industries dependent on government spending would have, certainly stabilizes and probably also raises the level of their spending on consumer goods. Through the stores this favourable influence will be passed on to the producers of consumer goods where it will tend to have similar effects over ever-widening areas. The size of the net effect on the economy of a high level of government spending which is not varied with the business cycle would probably vary considerably from time to time; but that it must in the long-run be of great importance is hardly open to doubt. In the economic system of the interwar period or the 19th century this stimulating and stabilizing influence was of negligible importance.

It is true, of course, that when peak spending by private business puts the economy under stress government spending adds to the pressure and its effects may properly be offset by running a budget surplus. However, as soon as any fall in business incomes cuts into tax revenues the net effect of these spending programmes immediately and automatically grows. There is no waiting on the slow process of getting new public works underway. Other public policies intended to delay the decline in private demand upon the onset of recession depend for their effect upon the reaction of the private businessman and the consumer to such things as tax cuts and easier credit conditions: in the face of business uncertainty it may not be a very positive one. But government expenditure on goods and services continues as an actual demand in the market place.

The catalogue of the effects of a high and relatively steady level of government spending on goods and services has yet other items in it to be explored. Without much spending by governments on the basic utilities, on the educational and welfare services necessary in a growing economy, the expansion plans of private business could not be carried out. It would be quite impossible to provide these facilities by sporadic government spending designed primarily to counteract recession. There is also a related aspect of this matter of greater importance in the United States but whose effects are bound to spill over the border. In recent years the technical requirements of national defence programmes have become so complex that the cost of much of the necessary research has gone beyond the reach of even the largest business corporations; it can be carried on fully, in fact, only by the governments of very wealthy countries. Yet this research not only contributes to national security, not only does it tend to stabilize the volume of business, it also gives rise to many of the inventions by whose application in industry private investment spending is stimulated and the productivity of the economy ultimately improved.

We may safely conclude then that the economic prosperity of Canada since the second world war has been related to the actions and policies of governments to an unprecedented degree. But their importance should not be exaggerated. This is still a private enterprise economy and the decisions and accomplishments of private business have been the primary factor in bringing about the growth of the Canadian economy and the improvement in our standard of living.

If the postwar boom in Canada has been shaped by new factors such as full employment policy and high government spending on goods and services, its dimensions have been very largely determined by an old-fashioned factor, the import of capital and business enterprise from abroad. It will be recalled that building new buildings and installing improved machines adds to the amount of employment, of income earned and of consumer demand, without immediately increasing the flow of consumer goods on which the income is spent. If the increment of income were not spent but saved the price raising effect would be absent. But when the funds come from abroad demand in Canada is increased just as it is when governments initiate the production of war goods. American companies, for instance, may bring much equipment

and some staff with them but, as local workers will usually be hired and local goods bought, a stimulating effect from their activities must be felt here. Canadian business will therefore find reasons to expand its current operations and probably its investment spending also.

Our recent prosperity is basically, therefore, of the traditional kind. Canada has been the scene of a great resource development and capital expansion boom and has experienced the inflationary and other disturbances which usually result. But it is also true that the pressures on the economy have been accentuated by the high level of government spending on goods and services and the full employment policies applied. It is hardly surprising, therefore, that the prices of goods and of labour have risen in boom periods and shown little tendency to fall even during recessions. If the expectation that severe depressions can be prevented becomes more widespread, if the cold war and economic growth in western countries maintains a high level of world demand for our exports, producers may be less and less willing to cut prices in the face of a falling off in business which they expect to be brief. In such circumstances prices would very probably show a long run rising tendency if vigorous measures were not taken to counteract it.

Amongst the forces which tend to a net rise in commodity prices is one which has long been operative but which seems to be growing stronger. For decades the downward flexibility of prices has been reduced by the ability of many businesses to keep the prices of their products from falling in recessions. In this habit they have been strengthened by the fact that public opinion frowns on cutting wage rates as an anti-depression policy. In the belief that the costs of depression are thus made to fall unduly upon the producers of commodities whose products remain flexible downwards, especially foods and many raw materials, farmers and some other groups demand that the prices of their products be stabilized also, if necessary by government action. If prices rise in business cycle booms and their fall in recessions is reduced by these pricing policies, tendencies to a long-run rise in prices are clearly strengthened.

Whether strong labour unions have raised wage rates more rapidly than they would have risen otherwise and whether, if this be true, a new and independent source of inflationary pressures on prices is thus created is a somewhat different question however. When other strong inflationary pressures are operating, union pressures may hasten wage increases in particular industries and bring about their more rapid spread through the economy. It is possible that some producers may be in a strong enough bargaining position in the markets for their products to raise wages and prices even in slack times. But I think this behaviour is not likely to become general unless a very expansive mood has already been created in the economy by other inflationary forces. That the habit of resisting downward pressures on prices and wage rates is weakening the tendency of prices to fall in depression is obvious. That the pressure for wage increases has become an independent and powerful inflationary factor has yet in my view to be demonstrated.

In concluding, I should like to state once more the explanation of inflationary pressures offered here and then to comment on the difficulty of getting strong public support for inflation controls.

No private enterprise economy will suffer long from inflationary pressures unless it changes its structure of production so as to give a larger place to producing goods which consumers do not buy. These may be inter-continental missiles, atomic reactors, seaways, iron ore, factories, new machinery, roads, or schools. While they are being constructed incomes rise as contractors on these projects compete for the existing supply of labour and raw materials. If finance for these enterprises were to be obtained mainly from increased savings by established businesses and their workers, total demand would not

much grow; a place would be made for the new products by reducing the demand for, and the production of, the old. This source of finance is not likely to be important, however, except in time of war when there is strong public support for the restrictive policies required to bring it about. At other times finance is more likely to come from inactive cash balances or through an expansion of the money supply. When this money is put to use there arises an additional demand for labour and raw materials, a sharpened competition for funds in the capital markets. As producers of consumer goods feel the quickening pace of business they themselves lay plans for new plants or installing improved machines. The general business expansion gathers momentum. Eventually, hectic boom conditions may appear.

If a purely private enterprise economy is left to itself in such a situation rising wages, interest rates and prices are sure to result. When scarce goods are being rationed by the purse the man with the largest purse wins—in war, the government, in peace borrowers with the best credit standing in the capital market be they governments or private enterprises. When prices become too high even for the most speculatively inclined, the boom collapses and depression follows.

As war experience clearly demonstrates the remedy for such an inflationary situation is to reduce total national spending or better to control its growth. To raise taxes and limit the supply of funds at the banks and in the capital market will control inflationary pressures in peace as in war. Controlling inflation is not at bottom a question of the remedies to be applied but rather of the public willingness to see well-known remedies vigorously used.

The striking contrast between the distaste of the public for anti-inflationary action and its whole-hearted support of the standard remedies for depression is worth brief examination. During depression every encouragement is given the businessman to expand production and, in particular, to undertake new enlargements of production facilities which he may have decided to postpone until better times. Circumstances in recession are favourable. Labour and raw materials supplies are easy, banks are willing to lend. As recovery occurs and business expectations improve more businessmen embark on such expansion projects, too often perhaps on the optimistic assumption that the favourable economic aspects of the recovery period will last through the coming boom. When costs rise, materials and labour become scarce and funds to complete projects become unavailable, the frustrated planner is likely to blame the labour unions or the banks for spoiling his chances at the boom time profits a completed project might have made possible. If a national economic policy which encouraged his plans during the recovery period has since been changed to one which now seeks to limit the amount of spending on capital projects, the individual's frustration may develop into a bewildered resentment at the apparent vacillation of the authorities. A small rise in prices may seem a slight price to pay for the greater economic growth he thinks less restraint would have permitted.

It is not easy to convince such a person that the restraints of which he complains lie in the nature of things rather than in economic policy; that policy seeks merely to speed up their application and thereby perhaps mitigate their severity. He may find it hard to realize that during the boom the completion of his project involves the use of men and materials which others must surrender to him either voluntarily through saving or under the compulsion of rising costs and prices during inflation. For the amount of capital goods which can be produced during a boom period is limited not so much by financial restrictions which may be imposed as by the scarcity of materials and labour, an insufficiency which inflation does nothing to remove. Inflation is rather a method of allocating scarce materials and labour to particular governments, corporations or individuals, those with large financial resources or great borrowing power.

I see no reason to believe that this allocation of scarce resources is necessarily preferable to that which would come about if economic policy were applied to restrain the vigour of such outbursts of national spending and if the completion of many particular projects took somewhat longer.

The severe depression of the early 1930's and the disappointing recovery which followed it led to widespread acceptance of the view that strong deflationary tendencies were at work in the peacetime economic system. At full employment income levels private savings tend to be larger than can be invested profitably, over long periods of time, in the creation of capital goods. Boom years rapidly use up the better opportunities; lower spending on capital goods and recession follow. Fearing that this might again be the case when the second world war was over, governments, in line with their newly-assumed obligation to promote full employment, made plans to stimulate postwar national spending.

The years since the war have shown again that vigorous boom periods can occur despite the deflationary tendencies of the economic system. I have argued above that full employment policies and high levels of government spending have played an important part in holding deflationary tendencies in check. Those who think these deflationary forces very powerful, still fear, however, that vigorous anti-inflationary action may upset a precarious balance of inflationary and deflationary forces and precipitate decline. Others go further to express doubts as to whether recent levels of government and private spending will prove large enough to maintain high average levels of employment indefinitely. Moderate prices increases from year to year would be welcomed by this school of thought as tending to improve private business expectations and so to enlarge private spending on capital projects. Still others, believing moderate price increases inadequate for this purpose and more rapid and prolonged inflation disrupting to the national output, argue that as western countries become richer and their savings larger, their people must be prepared to see more of current output devoted to public ends and more of the national income therefore spent by governments.

Responsible economists may be found today to support these various points of view. The relation of price movements to economic stability and growth is today one of the main preoccupations of the profession. Studies have not yet gone far enough to bring about general agreement. I think that very few economists will be found, however, to argue that our policy choice lies between full employment plus sizeable price increases, on the one hand, and price stability plus stagnation in the national output on the other. Most economists would agree that policies which tend to produce rapid price increases should be avoided. Advocates of a long-run rise in the price level always assume that the year-to-year inflation can be kept moderate.

Adoption by governments of a steady rise in the price level (i.e. a fall in the purchasing power of the currency) as a national economic policy objective, would, as soon as its implications were generally understood, increase inflationary pressures substantially and make it difficult if not impossible to keep the inflation moderate. Our policy objectives should, on the contrary, aim at long-run stability in the price level. In boom periods some price increases may well occur; but these should be offset later by periods of decline in the average level of prices. Provided the economic system retains its competitive and flexible nature and movements of the price level are kept within reasonable bounds, fluctuations of the index of prices below as well as above the long-run average position are not incompatible with high levels of employment and great growth in the national output. An anti-inflationary policy demands, therefore, not only fiscal and monetary action designed to bring about appropriate movements in total national spending; it involves also other policies designed to strengthen, and restore where it has been lost, the flexibility of our productive

system. There is thus a fortunate agreement between national policies to promote a steady improvement in productive efficiency and the fiscal and monetary policies which would create the economic environment most likely to bring about rapid economic growth. In that environment, I believe, long-run stability of the average level of prices is an essential element.

The ACTING CHAIRMAN: Thank you very much, Professor Knox. I am sure we are all very grateful for this comprehensive, careful and well thought out presentation of the general conditions applicable to the study of inflation.

Professor Knox has very kindly agreed to answer any questions which the members of the committee would like to put to him.

Senator BAIRD: Professor, what would you think the effect would be, or could be, or should be, if the floor prices were removed, for instance, on cheese and eggs both in the United States and here? Do you think there is a false ceiling there created by the establishment of these prices?

Professor KNOX: As I have argued, all these price stabilizing policies tend to work against a downward movement of prices rather than an upward movement and they, therefore, seem to me to be one of the forces that tends to a long-run upward movement in the price level. Of course, there are many other forces at work in the economy, and you have to consider others as well.

The ACTING CHAIRMAN: There is a question I would like to ask you, Professor Knox. You talk on pages 18 and 19 of your paper about some economists believing in a policy of moderate price increases over a period of time, and I think we are familiar with the fact one very well known professor in the United States, Professor Schlicter, has advocated that theory, and I was wondering whether you might elaborate on your remarks in the paper and say what you think of such a policy as applicable to Canada.

Professor KNOX: Mr. Chairman, this is not a new idea. It is some time since I was at Harvard University after the First World War, but Professor Allyn Young, who was my professor of money and banking at that time, used to say again and again: If—and I would underline that word "if"—If it were possible to operate the capitalist system in such a fashion that annually there was a two or three per cent increase in the average level of prices this would probably be the most effective functioning that that system could turn out, but then he would at once say "if", and since in those years, which were 1923 and 1924, the world was full of examples of the difficulty of keeping the movement of prices moderate in range he rejected this as not a possible way for the economic system to be made to operate.

I must confess that nothing I have seen in the interim leads me to question his opinion. I think, if I may continue just for a moment, that the critical matter here is what the people think is going to happen. If you can maintain an attitude in the public mind that says: "By gosh, I don't know which way the price level is going to go. One can never tell", then, I think, the public will take quite a bit of movement of prices in either direction without beginning to react to it too vigorously. But, when you lay it down as an element in national policy that you are not only going to tolerate it if you cannot help it, but you are going actively to assist and to promote, if necessary, a rise in prices of several per cent a year, then it seems to me that you put the public under notice that this is going to happen, and it better begin to protect itself against it. When the public begins on a large scale to protect itself against inflation, your inflationary pressures rise and the keeping of it moderate becomes, I think, impossible.

Senator ROBERTSON: Even among the advocates of a more or less regular increase, how did they purport to deal with the subject of individual savings accumulated for the future? Assuming the consumer could be controlled, would not that seriously affect the whole basis of saving?

Prof. KNOX: Certainly.

Senator ROBERTSON: How did they answer that one?

Prof. KNOX: The whole purpose of inflation is to gyp the saver, if I might put it crudely, because inflation is of no great point unless the resources that are put into the hands of those who have the money come out of the hands of those who haven't. People who advocate this sort of action propose various offsetting devices, such as some increase in the value of savings bonds according to a purchasing power index, or such things as escalator devices which have appeared in wage contracts. It seems likely to me that if they work they would increase inflationary pressure.

Senator ROBERTSON: How would they deal with things like life insurance?

Prof. KNOX: That belongs in the same category.

Senator ROBERTSON: How did they deal with it?

Prof. KNOX: By similar devices so as to vary the amount in accordance with the movement of price level, as I understand it.

Senator THORVALDSON: Professor Knox, on this very point I think you have indicated Professor Young's view very clearly. I am wondering if Professor Shlichter's view would really differ to any great extent from that of Professor Young's?

Prof. KNOX: So far as I understand it, it does in one particular, namely, he thinks the world is very different from what Professor Young thought it was, and all these great pressures towards keeping prices up are, I think, just underlining the validity of Professor Young's point of view. I gather that in Schlichter's point of view inflation is inevitable and we might just as well make the best of the world in which we live by attempting to control inflation and, if necessary, maintain it.

Senator THORVALDSON: You refer to a school of thought which held the view generally that it would be desirable to have inflation of one, two, three per cent a year. Is there really any great deal of thought in America among responsible economists with respect to that view?

Prof. KNOX: Yes, there are others besides Professor Schlichter.

The ACTING CHAIRMAN: Is there any responsible thinking in Canada on that score?

Senator THORVALDSON: Among economists?

The ACTING CHAIRMAN: Yes, among economists? I am thinking that what might have some validity in a country such as the United States, which has not such a large percentage of its production going for export purposes, might have a different and less serious application in a country such as Canada.

Prof. KNOX: I don't recall any advocacy of it in Canada but I may be wrong and omitting something there. I think it is quite obvious, is it not, that a small country which is largely dependent upon export trade and import of capital cannot independently of itself go out on any larger policy.

Senator MACDONALD: There is no doubt there is an opinion among certain economists in Canada that this inflation, which I think is often referred to as creeping inflation, is not against the best interests of the economy.

Prof. KNOX: I think it is rather a general opinion that if you can keep inflation moderate, the damage which it does is much less than rapid inflation because people find it possible to adjust themselves to the changes.

Senator BRUNT: Is that your opinion, Professor Knox?

Professor KNOX: I share that opinion. My whole point is that I do not think you can keep it moderate.

Senator CROLL: Do you agree with the view that we have had a moderate and uniform inflation in this country over, let us say, ten years, and that in the end it has been a good thing for this country? In view of what you said a moment ago, would you care to comment on this statement?

Prof. KNOX: I would accept the first half of it.

Senator CROLL: That it has been moderate and uniform?

Prof. KNOX: Yes.

Senator CROLL: It is the last part you do not agree with?

Prof. KNOX: It would take a much more thorough analysis of the last decade than I have made to make it possible for me to make such a judgment. I just don't know what the role of price increases has been in the Canadian economy. We could only make a decent opinion on that after a most careful analysis of all the inflationary forces that have been at work, and that would be quite a job, and one which I have not undertaken.

Senator CROLL: Well, for the moment, am I right in saying that the inflation has been, on the average, about 3 per cent a year?

Prof. KNOX: I cannot say just what the average has been, but the inflation in 1947-48 brought an increase in prices of about 40 per cent in a two-year period. The inflation of 1950-51 brought another increase in prices of about 20 per cent, but then there was a relapse in 1952. Since that time there has been a relatively moderate rise in prices, particularly wholesale prices.

Senator CROLL: From 1952 to 1959?

Prof. KNOX: It has been relatively moderate during that period. I don't know what the exact price increase per year has been.

Senator THORVALDSON: We have been talking of this creeping inflation in terms of being moderate and perhaps not moderate. I would question whether even you would say that an inflation of 3 per cent is moderate and whether you wouldn't say that it is pretty high.

Professor KNOX: If it goes on it will become pretty large in a decade, will it not?

Senator THORVALDSON: That is the point.

Senator CRERAR: At the top of page 2 of your brief you say this:

> If economic policies designed to restrain both inflationary and deflationary tendencies are to be effective, the confidence of the public in the long-run stability of the purchasing power of the currency must be preserved.

Now, I would most assuredly agree with that statement, and I think everybody else would. The important question is: how are we to reach that desirable end of inspiring the public generally with confidence that the purchasing power of money will continue to have stability? We did that during the war when we introduced the Wartime Prices and Trade Board.

Prof. KNOX: Yes.

Senator CRERAR: With complete control all down the line. However, in the absence of that I would like to know whether in your judgment, Professor Knox, it is possible or even conceivable that you can generate in the vast mind of the public a thinking and reasoning attitude towards these problems that will respond to the suggestions that you make further on in your brief?

Prof. KNOX: I would say not unless you cause or something causes prices to fall occasionally.

Senator CRERAR: Precisely, and if you let prices fall occasionally then you generate an enormous amount of discontent, and every tub-thumper throughout

the country is on a platform denouncing the authorities that permit this to happen. Now, I boil it down to this, professor: are we not faced here with a choice really of complete Government regulation or control as we had, for instance, under the Wartime Prices and Trade Board or, on the other hand, of leaving people to the consequences of their actions and to be disciplined through events?

Prof. KNOX: I should be very discouraged, after all the thinking that economists have done on these matters in my lifetime, if that was in fact the choice open to us, and the only choice.

Senator CRERAR: My criticism of the economists is that they have not come out yet with a reply to that question.

Prof. KNOX: Not with one easy and simple reply; but I would think, senator, that it is possible to devise procedures of fiscal and monetary policy, which in association with other things I would like to speak about in just a moment, would tend to minimize the inflationary pressures in the economy.

Senator CRERAR: I agree wholly on that. My question is, how are you going to get them accepted in a democratic country.

The ACTING CHAIRMAN: Perhaps through Senate committees.

Senator CRERAR: Well, that is if the valuable contribution of this committee through its deliberations will be accepted by the public generally as the remedy. Now, I do think, Professor Knox, that is a very crucial question.

Prof. KNOX: But I think there is one aspect to keep in mind, Senator Crerar, and that is that the natural course of events may do this for us.

Senator CRERAR: By the natural disciplines?

Prof. KNOX: Yes; and we may not be completely successful in offsetting them by our fiscal and monetary and other policies.

Senator CRERAR: Professor Knox, if we ever reach that desirable goal, which I am bound to say seems to me very, very distant, where political parties and governments will do the right thing, willy-nilly, and are prepared to go out, and that another party will come in and do the same thing, and go out, in the course of about five elections you might educate the people.

Senator BRUNT: It would probably end up with one political party.

The ACTING CHAIRMAN: Senator Macdonald?

Senator MACDONALD: Professor Knox, returning to the question of gradual inflation. Is it not a fact that over the years, from the beginning of this century, with the exception of one or two periods, the inflation has been gradual, and if that were not so would we not be back to the period when eggs were selling for ten cents a dozen and other produce at comparative prices? Is it not a fact that it has been necessary to have this gradual inflation in order to arrive at the standard of living which we have now reached?

Prof. KNOX: Well, this raises the question of my own teacher, Allyn Young, a question which has been raised by so reputable an economist as Alvin Hansen, of the United States—whether the world in which we live, cannot reach a maximum output without this upward movement of the price level. I can merely repeat my own judgment, that I think the deflationary tendencies in the economy are very strong, that they are not likely to be offset steadily over long periods of time except by a great deal of deliberate policy, and furthermore, that some of the periods of the most rapid increase in our national output have been in periods of relative price stability, as in the last few years. I do not think it is necessary to have a great price change in order to get a maximum output.

Senator MACDONALD: No, but we have only had a large price change, well, after the First Great War, and after the Second Great War.

Prof. KNOX: That is true.

Senator MACDONALD: Apart from that, the inflation has been very gradual, and no one has suffered much from it. In fact, I would say that we have all probably benefited from it.

Prof. KNOX: Well, I think if I may say one further thing, that the high government spending, and the anti-deflationary policy together, added to the normal activity of private enterprise have done that. I do not think you need to have price level up or down to have a maximum output. I think you might get a maximum output, provided the movement is gradual, with upward, downward or stable price levels. I think other factors determine the maximum rate of output as well as price movement as one of the factors.

Senator WALL: Is there not a basic economic equation which may or may not be affected by the price level and not enough goods, and that is the supply of money and whether its velocity equals the goods and services, and it does not have to happen because the price goes up, and therefore the volume goes up, and the standard of living goes up with it?

Prof. KNOX: No, I think this is quite true. In fact, you can see from the recent research by Professor Freidman that the great periods of inflation in the stock of money have not been great periods of national output but of great price increase; when the volume of money has gone up the price level has.

The ACTING CHAIRMAN: Senator Euler?

Senator EULER: In listening very carefully to what you have said, Professor Knox, the thing that is outstanding in your mind is that in order to fight the threat of inflation you must maintain public confidence in the value of our dollar. Now, my own opinion is that that confidence has been slipping pretty fast. Possibly you have answered this here, but if so I have not got it very clearly. What would be your method of maintaining or restoring the confidence of the Canadian people in the value of the currency?

Prof. KNOX: I would say that if it is slipping very fast, if this be true, it is a consequence of war and its consequences; and that as soon as we get far enough away from the disturbing effects of war and come up with an economy with a definite full employment policy and a high level of Government spending, I see no reason why the continued rise in the price level should occur. My whole argument is that there must be powerful inflationary forces at work, and the main source of such forces has hitherto been war.

Senator EULER: Professor Knox, did I understand you to say that you do not agree with me that that confidence is slipping?

Prof. KNOX: No; I think it is. I have suggested here that one—

Senator EULER: How will you restore it?

Prof. KNOX: By making the price level stable.

Senator EULER: By what means?

Prof. KNOX: I do not think you need to take positive action to do this. I have argued that in a normal peacetime period as you get farther away from these inflationary tendencies that arise out of war, deflationary forces will become relatively stronger, unless the new inflationary tendencies that seem to be arising within the system become powerful more quickly than I think they will. Getting away from war into peacetime circumstances forces come into operation which, since 1800, have brought about a tendency for the price level to move down as often as, and I would think that one of the things we may have to watch in the future, indeed, is tendencies to deflation that may be greater than we wish to accept.

Senator EULER: Do you think the public confidence is going to be restored automatically without any definite Government action?

Prof. KNOX: I would hope that as the war and post-war pressures recede into the background, and unless some disturbance of a similar kind occurs, we might then find it much easier in fact to keep the price level within reasonable range.

Senator EULER: But at least it seems possible, from what one sees and hears, that this war disturbance, or fear, will continue, and if that continues then what are we going to do to restore public confidence?

Prof. KNOX: If I might repeat, I would think that public confidence will be undermined only if the actual movement of prices continues steadily upward for long periods of time. Any reversal of that direction, any sizeable reversal would create the uncertainties which I think are what we should leave in the public mind.

The ACTING CHAIRMAN: May I interject, Professor Knox, with a question there? You are assuming that we have both the ability to control the money supply and the willingness to control it in the direction of the stability of prices.

Prof. KNOX: Yes.

Senator THORVALDSON: A moment ago Senator Crerar was dealing with a point which I really do believe is fundamental in its whole nature, namely a public attitude. There seems to be a public attitude, both in Canada and the United States, that the only time and way you can have prosperity is during a period of inflation, be it moderate or otherwise. But is it not accurate to say that in the last hundred years on this continent we had, from the end of the Civil War to the end of the century, both in the United States and in Canada, a deflationary period which was continuous for over a quarter of a century during which time there was tremendous growth and development and prosperity throughout the United States. Is that not fairly accurate?

Prof. KNOX: I have a chart here of the wholesale prices in Great Britain which shows for one thing, for instance, that the price level in 1940 was almost exactly where it was in 1840, and yet there has been considerable growth in output over that period.

Senator CROLL: That raises a question in my mind, a question along these lines that is not our standard of living, when compared to the standard of living in other countries, due in part to the inflationary forces that have been in effect in this country?

Prof. KNOX: By no means. I would suggest that the reason for the difference in the standards of living is the basic resources that we have had at our disposal and that they have had at theirs.

Senator HAIG: I do like your ideas about our being distant from war, Professor Knox, but we are still in a war—a cold war—and it is just as disastrous as a hot war, and until that cold war is settled we will not be able to get away from that war hysteria.

Prof. KNOX: I think, though, that the cold war is not as disastrous in its effects on the price level because the size of the expenditures involved is not yet relative to the national income, as large as it was in war.

Senator HAIG: There is a great tendency at the present time to take money out of investments such as a life insurance policy, or an endowment policy, and put it into real estate, say to purchase a house. The common man, the man like I meet as a practising lawyer, comes into my office and says, "I am buying a house." I ask him, "Where are you getting the money?" And he will reply, "I cashed my insurance policy." Than I would ask him, "Why did you do that?" And he will reply, "Well, I know that if I buy a house it will not go down in price but I don't know what my insurance policy will be worth when it becomes due." Is that idea widespread?

Prof. KNOX: You have more experience of the public's feeling about that than I have, Senator Haig, but I understant that it is widespread.

Senator HAIG: It is being carried out extensively?

Prof. KNOX: Many people are doing this. I understand, and I see offered as a common explanation of the relative behaviour of stock prices and of bond prices. It cannot be the whole thing, of course, but it may be an element in it.

Senator CRERAR: Mr. Chairman, I have a few questions to ask, but I must say that they are of a speculative nature.

Professor Knox, if the price controls of 1941 which touched everything, wages, prices, salaries, rents, and everything else, had been continued until after the Korean war or say for ten years, would our position be better than it is today?

Prof. KNOX: Well, this is one of the hypothetical questions which I do not know how to answer because I do not think it could have been continued. Public opinion would not have put up with it. The very efficiency of a number of these controls had already been worn away; there was a considerable attrition in the efficiency of the controls simply in the transition from war to peace. I doubt if they could have continued.

Senator CRERAR: Well, might I point out that they did that with considerable success in Great Britain. 1 was in Great Britain in 1951, which was just six years after the war ended, and I had to get a ration card and queue up, my wife and myself, to get a ration of meat. But prices were held.

Prof. KNOX: But the public situation, the situation of the British economy after the war was more like that of a war situation than was true on this continent.

Senator CRERAR: Would you say it was because there was a better discipline in the British mind than there is in the Canadian mind?

Prof. KNOX: That, I do not know, sir. That is out of my field. I would rather say that the economic situation of this continent was so much easier than that of the European countries that those controls might persist there longer than they did here.

Senator WALL: I wonder, Professor Knox, if you would care to comment on the general proposition that a study—and I am using the word "a"—of the modern threat of inflation is now not really well timed because that threat is not existing. After all, prices lately have been seasonally going down a little bit. What is your opinion of the basic value of a study of inflation, not necessarily this particular one, but one which is in this context.

Prof. KNOX: Well sir, I think there are strong deflationary and strong inflationary tendencies at work in our economy. I think it is always appropriate to study how these are operating and to try to estimate the circumstances under which one or the other may dominate. I think this sort of study must be a continuing pre-occupation not only of the economics profession but of public men and leaders of opinion.

Senator ROBERTSON: Professor Knox, is there any material difference as respects any inflation or the danger or threat of inflation as between this side of the Atlantic and the other?

Prof. KNOX: There certainly was after the war. I have seen it stated recently that the threat of inflation is now perhaps better controlled in Europe than here. I have seen that idea expressed, and it may be related, and indeed it was by the author I am thinking of, to the point that Senator Crerar has made, that over there there is probably a greater willingness to accept certain degrees of controls than exists here. This may or may not be true. However,

it is also due to the vast improvement in the character of the European economic situation. They have staged an amazing recovery since the war.

Senator MACDONALD: I was quite impressed by two sentences—there are many impressive sentences in your brief, but two of them in particular—on page 19, at the top of the page where you say:

> Our policy objectives should, on the contrary, aim at long-run stability in the price level. In boom periods some price increases may well occur; but these should be offset later by periods of decline in the average level of prices.

If that were so, would it not result in, and is this not what you approve of, periods of great employment in Canada, followed by periods of considerable unemployment? My question is: would the result not be periods of decline, followed by periods of incline in prices?

Prof. KNOX: It seems to me that these periods arise in spite of ourselves, out of the nature of the economic system under which we operate. We are going to have booms and we are going to have recessions. I think we are acquiring gradually—or perhaps I should say I hope we are—both technical capacity and support for policies which will moderate each of these tendencies. But that we are going to have periods of boom and price increases, I have no doubt. What I would hope is that we can so arrange our national affairs that we can without damage to any particular interest accept some fall in the average level of prices as an accompaniment of periods of recession which I think are inevitable.

Senator MACDONALD: You think on the whole that is a good thing?

Prof. KNOX: I don't see any reason to believe that we must always expect a stable or rising price level. That would vitiate the whole hope for stability in average limit of prices.

Senator MACDONALD: I was interested in what you had to say about deflation. As I understood your remarks, your fear was that we might have more difficulty in periods of deflation which lie ahead of us, than in periods of inflation. Do I gather that from what you said?

Prof. KNOX: Yes. I think the deflation tendencies of the economic system, which have been submerged since the war by wartime influences and other factors, may very well arise in the future to plague us again.

Senator MACDONALD: Have you given any consideration as to how far in the future that period might be?

Prof. KNOX: My dear sir, if I knew that I would not be here.

Senator ASELTINE: What effect would that inflationary period have on unemployment?

Prof. KNOX: Obviously, it would be bad. It seems to me that we have gone panicky about contemplating any unemployment.

I go a step further; I would not make that statement without making this statement: I think we have become a wealthy enough community that it is grossly unfair to let any large portion of the population suffer from unemployment, which will inevitably occur; I think the difficulty of the economic system of the past is that when we have had unemployment the incidence of its cost has been extreme on the unemployed themselves. I don't think that should be the case.

Senator CROLL: What you are saying, Professor, if I understand your answer, is that you foresee unemployment in this country in some measure—constant unemployment. You say that would be overcome by looking after those who are unemployed by other than finding jobs. That is what I understood you to say?

Prof. **Knox**: No. There are two things about that: not constant unemployment, but periodic unemployment is what I foresee. Of course it is commonly believed that probably 2 or 3 per cent of the population is unemployed even in prosperous times in the process of moving between jobs and that sort of thing. But with respect to any large core of unemployed, aside from the unemployable so-called, if the economic system is going to operate effectively in periods of over-pressure in the economy, which we seem unable to prevent, and in the periods of under-pressure which follow I think we ought to be able to devise a method by which particular individuals won't suffer from unemployment, if the situation is not of their own doing.

Senator **Aseltine**: How would that be accomplished?

Senator **Thorvaldson**: Professor Knox, we have been doing that very thing for a long time by means of unemployment insurance and so on, is that not correct?

Prof. **Knox**: That is correct, and I think an extension of those methods would be appropriate.

Senator **Smith** (*Queens-Shelburne*): Mr. Chairman, I would like to make mention of a paragraph at the bottom of page 14, with reference to Professor Knox's statement that pressure by labour unions for wage increases has been a relatively minor factor. You say:

> "That the pressure for wage increases has become an independent and powerful inflationary factor has yet to be demonstrated."

At a time when the steel industry is working less than capacity, when the automobile industry is alko working less than capacity, and the labour unions through their power are able to get successive increases in wages, does not the public believe therefore the farming segment, indeed the whole non-union segment, is going to make a demand on somebody—and in this instance it is the Government—to do something for them? When that happens is that not an important inflationary factor?

Prof **Knox**: Many people would agree with you. I merely have stated my opinion. Note the phraseology: an independent inflationary factor. There are some indications that a large group of commodity prices may rise. This may be inevitable under our economic system. Price stability does not mean individual price stability. It means a stable average level that permits individual prices to go up and go down.

If this rolling inflation, as some call it, beginning in the steel industry in the United States and moving elsewhere goes on I have not yet been convinced that its upward effect upon the average level of prices will be great unless there are other strong pressures of an inflationary kind going on in our economy. One of them may be an anti-unemployment policy. It is conceivable that the Government has reasons for undertaking expansive policies, and that may be a good time therefore at which these price increases can be undertaken. This is a most complicated problem. All I am saying is there are important matters here to be looked into; I am not personally convinced they are the most important.

Senator **Burchill**: On the last page of your brief, Professor Knox, you use the words "our policy objectives". I take it when you use the word "policy" you mean the Government or national policy?

Prof. **Knox**: National policy.

Senator **Burchill**: That would involve taking care of unemployment, for instance?

Prof. **Knox**: Yes.

Senator **Burchill**: Plus, I presume, the fiscal policy.

Prof. KNOX: Fiscal policy, monetary policy, and one matter which I have not had a chance to emphasize, Mr. Chairman, a policy which involves keeping efficiency high. I think an aspect of this matter which we are too inclined to ignore is that one of the best ways to keep the present level stable is to do our job better. And if you create all sorts of pockets within the community in which price stability is the method of getting income stability, rather than efficiency in production—if this be the choice—I think you slow up the evolution and adjustment of the economy to the ever-increasing competitive forces that fall upon us from outside. So, there is a very wide range of policies, all of which have to work together.

Senator CROLL: Professor, a few moments ago you were speaking about the price increase during the boom times, which we all understand. My question is: What, in your opinion, has caused the price increase during the recent year and a half or two-year recession?

Prof. KNOX: Well, this is related by most people to the policies of price maintenance. I have no special knowledge of it, but most people seem to relate it to these price raising policies on the part of the private business, or to the effect of other prices which have lagged in their rate of rise since the war as compared with the average of prices, and their going on up until they get an adjustment to them again; or, that the basis of price stability in previous years, namely, the declining agricultural price level and the rising industrial price level is no longer in existence. I have seen that suggested, because all of these are rising now by degrees. You would have to ask an expert price statistician to comment on that.

Senator CROLL: But is not that really what is troubling the Canadian people, or the people who have given it any thought at all? I do not understand it, and you are the teacher, and I am asking for something of rather a concrete nature, if you can give it to us.

Professor KNOX: Well, I would say two things, senator. First, the teacher is not an expert in this thing, and, secondly, I do not think the experts know. I am afraid this is one of the unsolved problems on which a great deal more work needs to be done.

Senator WALL: I wonder if I could come back to this cost-push on the price level aspect, and ask you this: In view of that basic economic equation that I spoke about before—money supply times velocity equals goods and services times their price—somebody is pushing up the price, but that price could not rise if either the velocity of circulation did not change, or if somebody did not inject new amounts of money; is it not true, generally, that injections of money have to be made in order to allow price increases to occur? That is the other side of the equation.

Professor KNOX: I agree, but some challenge the implication of your remark, namely, that the quantity of money would not be increased and so prices would not rise on the average. They argue that if you put up prices and thus choke off demand and reduce production then we have unemployment, and we have a policy to deal with unemployment. They argue that you work from these price policies to unemployment, and then to the generalized expansion policies which validate them. I think other things have to be said in that connection.

Senator CROLL: I want to ask one unfair question. As betwen inflation, moderate or uniform, and unemployment, what is your choice?

Professor KNOX: I would not entertain such a choice, senator. I do not think that is the choice before us.

Senator CROLL: That is not the choice?

Professor KNOX: I do not think that is the choice, no. The reason I am here is that I think one of the great dangers is rapid inflation, if we do not manage ourselves properly. I think, also, one of the great dangers is a movement the other way that may become rapid if we do not manage ourselves properly.

The ACTING CHAIRMAN: Do you think that will bring greater unemployment? Is that the point?

Professor KNOX: They both will be disastrous, and they will have complicated inter-actions. I do not think the choice is between the alternatives you suggest.

Senator CROLL: Those are not my own words. I am thinking along that line, but those words I have just stated come from a man who holds the highest political position in this country. I quoted his words, although I used my own phraseology.

Professor KNOX: These alternatives have been presented by reputable economists as being, frankly, the only alternatives that face us, but I am not prepared yet to assent to that pessimistic conclusion.

Senator THORVALDSON: There is just one thing on that point. The facts prove that you are right on that point, do they not, because a moment ago we were talking about the tremendous deflation that occurred on this continent from the end of the civil war to the end of the last century, and that coincided with a time of tremendous expansion of employment and business, and growth, on this continent? Is not that right?

Professor KNOX: That is true, but I also emphasized, sir, that we do not live under the same sort of economic system that produced those results.

Senator WALL: We have talked about deflationary pressures and the fact that they might bring about price decreases, but this is an instance of where the costs would be visited upon the unemployed, and it is a problem we are alert to. We have to find ways of making sure that that cost burden does not fall too heavily upon that segment of the population. There is the converse of that, and that is that inflationary pressures bring a heavy incidence of cost on the older and the less agressive ones, and those less able to protect themselves equally in our economy. Would you care to comment on that? You mentioned briefly the effects of inflation in the cost factor upon these segments of the population. Would you care to extend your remarks *vis a vis* that aspect of the problem, and tell us what may be the means by which we may alleviate some of that cost?

Professor KNOX: Well, with regard to the latter question I would hope we might avoid it by substantial stability of the price level.

Senator WALL: I will buy that. We want to avoid it; that is true.

Professor KNOX: If you cannot avoid it—that is, if you do find that you do not succeed in this business of having stability of the price level—then I think you have another problem on your hands upon which I would not feel competent to comment, and I doubt whether many economists would, and that is how to prevent a group of people who are at a disadvantage from inflation from suffering too much as a consequence.

Senator WALL: I am asking this question because there are economists—and Professor Boulding of Michigan University is one—who claim that with regard to redistribution of income that has taken place in the last two decades in the United States, the total effect of labour unions, of progressive income taxation, and of tariffs is not equal to the amount of the redistribution.

Prof. KNOX: There has been an enormous shift in the distribution of income as a consequence of the price rises that take place. There is no doubt about that.

I think leaders of opinion ought to bear in mind that the Government is one of the main beneficiaries in that.

Senator WALL: Oh, yes.

Senator HIGGINS: Am I right in saying you should really go back to the old salutary rule or advice that people should spend less and save more? Am I wrong in saying that?

Prof. KNOX: In some circumstances that would be excellent advice, and in other circumstances it would be disastrous.

Senator HIGGINS: Are people encouraged to mortgage their future by borrowing to get commodities they cannot presently pay for? If I buy a motor car and I go to a finance company I pay perhaps 20 per cent more to have the car financed. In one case that may not make much difference but when it comes to thousands and thousands of cases, doesn't it amount to an enormous sum of money, and does that not increase the price of commodities?

Prof. KNOX: It depends again, I am afraid I must say, sir. In recession and in serious unemployment lending money to consumers to increase their purchases may be one way by which purchasing can be increased and production raised and income expanded. It may be equally disastrous to do that when the economy is already under serious pressure as in boom times. The difficulty is in turning it on and turning it off at appropriate times.

The ACTING CHAIRMAN: Are there any other questions? Well, I am sure we are all very grateful to Professor Knox for his extremely informative brief and the valuable contribution he has made to our deliberation here this morning. He has been most patient and courteous. Certainly we owe him a vote of thanks.

Hon. SENATORS: Hear, hear.

Whereupon the committee adjourned.

on (Senate), 1959

Second Session—Twenty-fourth Parliament

1959

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE
on the Threat of Inflation in Canada

No. 2

TUESDAY, JUNE 9, 1959

THE HONOURABLE CLARENCE V. EMERSON,
Chairman

WITNESSES

The Canadian Chamber of Commerce: Mr. Morgan Reid, Chairman, Executive Council. Mr. H. H. Edmison, Co-chairman, Public Finance and Taxation Committee. Mr. W. J. Sheridan, Assistant General Manager.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

THE STANDING COMMITTEE ON FINANCE

Chairman: The Honourable Clarence V. Emerson.

The Honourable Senators:

*Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Buchanan
Burchill
Campbell
Choquette
Connolly
  (*Halifax North*)
Connolly
  (*Ottawa West*)
Crerar
Croll
Dupuis
Emerson
Euler
Farris
Fraser
Gershaw
Golding
Haig
Hayden
Higgins
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Power
Pratt
Quinn
Reid
Robertson
Roebuck
Savoie
Smith
  (*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
Wall
White
Woodrow (50)

**Ex officio* member

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, TUESDAY, April 28, 1959.

"Pursuant to the Order of the Day, the Senate resumed the postponed debate on the motion of the Honourable Senator Wall, seconded by the Honourable Senator Leonard:

That the Standing Committee on Finance be instructed to study the threat of inflation in Canada;

That the Committee have the authority to send for persons, papers and records, and to report from time to time.

After debate, and—

The question being put on the motion—

The Senate divided and the names being called they were taken down as follows:—

CONTENTS

The Honourable Senators

Baird,
Basha,
Beaubien,
Bois,
Boucher,
Bradette,
Connolly (*Halifax North*),
Connolly (*Ottawa West*),
Crerar,
Croll,
Dupuis,
Euler,
Farquhar,
Gershaw,
Golding,
Grant,
Hodges,
Hugessen,
Isnor
Jodoin,
Lambert,
Lefrançois,
Leonard,
Macdonald,
McGrand,
Petten,
Pouliot,
Pratt,
Reid,
Robertson,
Roebuck,
Savoie,
Smith (*Kamloops*),
Smith (*Queens-Shelburne*),
Stambaugh,
Taylor (*Westmorland*),
Vaillancourt,
Veniot,
Wall,
Woodrow.—40.

NON-CONTENTS

The Honourable Senators

Aseltine,
Brunt,
Buchanan,
Emerson,
Gladstone,
Haig,
Higgins,
Horner,
MacDonald,
Methot,
Pearson,
Quinn,
Sullivan,
White.—14.

So it was resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

Extract from the Minutes of the Proceedings of the Senate, Wednesday, June 3, 1959.

"With leave of the Senate,

The Honourable Senator Beaubien moved, seconded by the Honourable Senator White:

That the name of the Honourable Senator Power be added to the list of Senators serving on the Standing Committee on Finance.

The question being put on the motion, it was—

Resolved in the affirmative."

J. F. MacNEIL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, June 9, 1959.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.15 a.m.

Present: The Honourable Senators Emerson, Chairman; Aseltine, Beaubien, Bouffard, Brunt, Euler, Higgins, Isnor, Lambert, Leonard, Macdonald, McKeen, Pratt, Reid, Turgeon, Wall and Woodrow.—17.

In attendance: The official Reporters of the Senate.

Consideration of the order of reference of April 28, 1959, was resumed.

The following representatives of the Canadian Chamber of Commerce were heard:—

Mr. Morgan Reid, Chairman, Executive Council.

Mr. H. H. Edmison, Co-chairman, Public Finance & Taxation Committee.

Mr. W. J. Sheridan, Assistant General Manager.

On motion of the Honourable Senator Beaubien, it was resolved to report recommending authority to increase the printing of the day to day proceedings from 800 copies in English and 200 copies in French, to 1800 copies and 400 copies, respectively.

The further consideration of the order of reference was postponed.

At 12.30 p.m. the Committee adjourned until Thursday, June 11th instant, at 10.15 a.m.

Attest.

John A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, Tuesday, June 9, 1959.

EVIDENCE

The Standing Committee on Finance, which was instructed to study the threat of inflation in Canada, met this day at 10.15.

Senator Emerson in the Chair.

The CHAIRMAN: Gentlemen, we have a quorum so the meeting is called to order.

First of all, I would like to thank Senator Leonard for acting as vice-chairman at the last meeting when I was away. From what I hear, he did a very good job indeed.

I would like to thank the honourable senators for attending in such large numbers this morning, it being such a beautiful day too.

I also wish to welcome Senator Power to the committee.

There is a need to increase the number of copies of our proceedings, and so I would like to have a motion to that effect.

Senator BEAUBIEN: Mr. Chairman, I move that this committee be authorized to increase the printing of their proceedings from 800 copies in English and 200 copies in French, to 1800 copies and 400 copies respectively.

Agreed.

The CHAIRMAN: Doctor Deutsch has been here and spent considerable time with the steering committee. He has set the wheels in motion to gather all kinds of statistics for us, and I am sorry that he is not at the meeting today, but prior to accepting this appointment he had made some other engagements which he has to keep but he will be here on June 17 permanently. I might say that the steering committee has held several meetings and they have been very successful. There are at least 21 witnesses lined up for appearance before the committee between now and the 28th of June, and they have all confirmed their desire to be here.

Senator BEAUBIEN: Mr. Chairman, while you are on the steering committee question, I would like to move that Senator Burchill replace Senator Robertson on the steering committee.

Carried.

Senator LEONARD: Mr. Chairman, before the formal proceedings begin I should like to speak to a correction in the printed proceedings of the meeting we had on Tuesday, May 26. On page 18, about the 14th line from the bottom, I asked a question of the witness, Professor Knox, and as it appears in the record it creates the contrary impression to what I actually said. I was asking a question as to the theory of Professor Schlichter and was asking the witness as to whether or not that theory of his might have a greater validity in the

United States where not such a large percentage of production goes for export purposes than it might have in Canada, and the word "than" was omitted from the last line of my question so that it created the opposite impression to what I was actually asking. So, Mr. Chairman, I would ask that if there are any more copies being printed of these proceedings that the word "than" appear after the word "application" in the last sentence in that question. The question will therefore read as follows:

> "I am thinking of what might have some validity in a country such as the United States, which has not such a large percentage of its production going for export purposes, might have a different and less serious application than in a country such as Canada."

The CHAIRMAN: Thank you very much, Senator Leonard. We will have that change made and what you have said will appear in the record today.

Mr. D. L. Morrell, General Manager of the Canadian Chamber of Commerce was to appear before the committee today to deliver the chamber's brief, but he has been unable to attend. Mr. H. H. Edmison, Co-Chairman of the Public Finance and Taxation Committee will, in place of Mr. Morrell, address the committee.

I will ask Mr. Morgan Reid, Chairman of the Executive Council, Canadian Chamber of Commerce, to introduce the members of the chamber's delegation here today.

Mr. MORGAN REID *Chairman, Executive Council, Canadian Chamber of Commerce*: On my left is Mr. H. H. Edmison, Co-Chairman of the Public Finance and Taxation Committee of the Canadian Chamber of Commerce.

Our delegation is composed of Mr. Wm. J. Hulbig, who is a member of that committee; Mr. J. A. Ross, also a member of that committee; and Mr. W. John Sheridan, Assistant General Manager of the Canadian Chamber of Commerce for National Affairs; and Mr. Douglas Henderson is our Manager of Department of Information.

Mr. Edmison will be our chief witness.

The CHAIRMAN: As we generally do, would the senators please refrain from asking questions until Mr. Edmison has completed his brief, and following that we will have a question period.

Mr. H. H. EDMISON, *Co-Chairman of the Public Finance and Taxation Committee, Canadian Chamber of Commerce*:

Mr. Chairman, and members of the Senate Finance Committee.

The Executive Council of The Canadian Chamber of Commerce welcomes this opportunity to present to the Senate Finance Committee its views on matters of principle and policy relating to the problem of inflation in Canada.

Introduction:

The Canadian Chamber of Commerce is the voluntary federation of more than seven hundred and fifty Boards of Trade and Chambers of Commerce in all parts of Canada. These community Boards and Chambers are established to promote the civic, commercial, industrial and agricultural progress of the communities and districts in which they operate.

The Chamber includes among its objectives the development of an informed public opinion with the resultant effective action at all levels of government on questions affecting the public welfare.

This brief is submitted by the Executive Council of The Canadian Chamber of Commerce and is based upon those principles and policies which constitute its platform. A summary of the Chamber policies and philosophy which we believe are relevant to this submission is attached hereto as Appendix A. Also attached as Appendix B are excerpts from a recent submission by the

Chamber's Executive Council to the Ministers of Finance and National Revenue. The Executive Council is a body appointed by the National Board of Directors, the governing body of the Chamber, to carry on the ordinary business of the Chamber during the interim between meetings of the Board.

Terms of Reference:

We understand that the Senate Finance Committee, in its enquiry into the threat of inflation in Canada, envisions "a wide and comprehensive study of the subject". We hope that this submission will make a useful contribution to the understanding of this complex and controversial question.

Definition:

Even defining the term "inflation" presents its difficulties. The inflation which occurs when demand is high and stocks of goods are in short supply, as occurred after the end of World War II, has long been regarded as the classic type. Certainly there is little evidence of this kind of inflation in Canada today. Unemployment is relatively high, stocks of most goods are ample, consumers' inventories of major items, such as houses and cars, are generally adequate. Shortages are virtually non-existent. More important, capacities to produce a wide range of products, both primary and manufactured, have increased considerably as a result of the high capital expenditures of recent years. In many cases rated capacities are considerably larger than indicated, particularly with an extension of the work week, or after allowance for additional shifts. In other words, in most lines, supply, particularly potential supply, is much greater than current or near term demand.

Despite the present quiescence of inflationary pressures, the Executive Council agrees with the definition of the Honourable Minister of Finance in his recent Budget Speech when he said: "Rising costs and continuing price increases spell inflation". It is mainly in relation to this definition and in the perspective of post-war economic trends in Canada that the Executive Council presents its assessment of the current situation in respect to inflation and more particularly concerning the dangers that lie ahead if strong inflationary pressures are permitted to permeate our economy.

Post-War Experience:

From 1947 (the first full year after price controls were lifted in 1946) through 1958 the Consumers' Price Index in Canada increased 47.5% or $3\frac{5}{8}$% per annum, compounded. During this 11-year period, however, the Canadian economy experienced dynamic growth on a scale seldom equalley by any country. Population increased 35.8%, G.N.P. 133.8%, employment 18.1%, and unemployment as a percentage of the working force averaged 3.3% per annum. Gross capital expenditures of all kinds totalled $65.7 billions, or, on average 23.0% of G.N.P. per annum. This post-war economic experience poses a number of questions. One of the most searching in respect to this enquiry, is the compatability of price stability with dynamic economic growth. Also, was the $3\frac{5}{8}$% annual erosion of the dollar the price that we paid in Canada for such a vigorous advance in this period?

Another question which is naturally raised is whether or not the Canadian experience was unique or were other countries, particularly those which affect us most commercially and financially, such as the United Kingdom and the United States, experiencing similar economic expansion and suffering comparable currency depreciation. The following comparison is of interest

in this connection, and these figures, incidentally, are based on those published by the Dominion Bureau of Statistics or are reproduced by the Bureau:

	G.N.P. Increase 1947-1958	*Increase in Consumer Prices 1947-1958*
Canada	133.8%	47.5%
United States	88.5%	29.3%
United Kingdom	114.3%	67.7% (est.)

That last figure is an estimate because of a change in the series that took place during that period, but it is a very close figure.

From the foregoing it may be seen that Canada's post-war economic growth has been more vigorous than that of our southern neighbour with which we have such important trading and other balance of payment relationships, and also than in the United Kingdom, our senior partner in the Commonwealth, and our traditional market for a wide range of food stuffs and other products. The Canadian price increase of 47.5% is less favourable than the United States but somewhat better than the United Kingdom.

It is rather important to look at the inflationary problem in international terms, particularly for a country like Canada, which is not only a great trading nation but a country that must look abroad for substantial savings to finance many of her great capital projects. The fact that the Canadian post-war recovery was particularly strong should not make us complacent because it was achieved at the expense of a substantial consumer price increase. A number of countries, notably West Germany, have been able to contain their price advances to a much greater extent and along with their general industrial resurgence in recent years have been able to offer a wide range of goods for sale in this country at appreciably lower figures than many of our domestic suppliers. Thus import competition has been accentuated by costs rising more rapidly in this country. Moreover, some of our exporters are meeting increasingly stiff competition, in part from countries where the tempo of inflation has been less pronounced, thus weakening our terms of trade.

The Minister of Finance in the recent Budget address warned of the danger to our longer-term economic prospects of a persistent trend toward higher cost of production. He pointed out that rising costs and continuing price increases are weakening our competitive position at home and abroad and thereby reducing the possibilities of useful and productive employment. He also stated that inflationary tendencies divert effort from productive pursuits to the wasteful processes of speculation from which in turn flow economic maladjustment and decline. He said: "More than this they impose severe burdens on those with fixed incomes and those normally least able to protect themselves. They lead to an unequal sharing of the fruits of progress and frustrate the just expectations of toil".

In the perspective of this post-war period we must recognize the rapid but somewhat inflationary growth and the higher living standards it has brought to Canadians generally. We must also recognize the maladjustments and vulnerabilities in trade, at home and abroad, as we turn to the present economic situation and the paradox of concern about inflation in the presence of ample supplies and capacities of most goods and services.

Inflationary Psychology:

This inflationary psychology seems to stem largely from a belief in "the inevitability of inflation", encouraged by the continuation of price increases during the recent recession and concern about government deficits and the manner in which they are financed. It is manifested in the capital market, in the lack of demand for fixed income securities and the interest in common

stocks and other equity investments. Few signs, however, of speculative excesses have been evidenced in the stock or commodity markets. Businesses have not shown any marked evidence of accumulating inventories beyond current requirements nor have they shown any intention of embarking on a major capital investment spree of the 1956 variety. Thus concern about inflation today looks to the past and again to the future in respect to government deficit financing and also wage and other pressures on costs. It is recognized that the combined effects of these factors on prices are accentuated in an environment of strong demand when present resources (now more than adequate) are once again under strain.

Forces Affecting Inflationary Trend:

The Executive Council in looking to the future of our economy believes that fears about inflation while well founded should not be exaggerated but dispassionately assessed. Strong inflation-creating forces still threatening, include government deficits and cost increases in excess of productivity. These critical areas will be considered under headings relating to the various factors and groups concerned.

I think it should also be noted here that there are also countervailing forces which are a little reassuring because they, in effect, tend to contain inflationary forces.

Government Expenditures:

The Chamber's greatest concern in respect to the inflation issue is in the area of government expenditures. The latest Federal estimates for fiscal 1959-60 at $5.6 billions (8.5% above the 1958-59 level) are some 165% higher than the $2.1 billions total of 10 years ago. Moreover, the rate of increase is considerably greater than the estimated 108% increase in Gross National Product over this period, and the 94% increase in consumer spending over the 10-year period. This underlines the fact that not only is the Federal government the biggest spender in the country, but over the years it has been spending at a faster rate than total economic activity in Canada, to which, of course, it is an important contributor, and at a much greater rate than the consuming public.

In the minds of many people government costs are associated with the Civil Service. While this is a relatively small percentage of total government expenditures it provides an important indication of government growth. The Federal government had 195,390 people on the public payroll in 1958—a jump of 10,000 over 1957. In the ten years since 1948 the number of people on the Ottawa payroll increased by 62,000 or nearly 53%. In the twenty years since 1938 the increase has been 136,000 or 309%. This compares with our population growth since 1938 of 55%. During the last twenty years, in peace and war, good times and bad, Ottawa (the Government of Canada) has added to the public payroll an average of 6,800 persons every year. Another significant fact is that the Federal government expenditures during the past ten years have increased at double the rate of corporate profits (165% as against 79%) although, to a significant extent, the Federal government relies upon corporate taxes to finance its activities. If provincial-municipal expenditures are added as well, you obtain very much the same percentage pattern. In other words, aggregate government expenditures in Canada have been increasing during the past decade at a faster rate than economic activity, generally, and in particular than those segments of the economy which represent the major tax support for government outlays.

The Executive Council is strongly of the belief that government expenditures have reached the point in Canada where containment is mandatory. It is encouraging to hear of the government rejecting at least some claims (but unfortunately not all claims) of pressure groups for special attention, because reckless extension of the subsidy principle would make the Federal fiscal picture

quite unmanageable. It may well be argued that certain welfare programmes have been "too large and too soon". In any event it is going to take some time to digest in budget terms, the commitments already made.

In the field of social welfare. The Canadian Chamber of Commerce believes that a careful distinction must be drawn between what is socially desirable as an ultimate aim and what can be achieved without damaging the system that makes our social welfare advances possible. Any additions to the already extensive welfare programmes should be carefully assessed, not only with regard to their initial cost, but also with regard to their foreseeable growth and inflationary effects.

The Executive Council stongly recommends that a body be established similar to the Hoover Commission in the United States to explore the possibilities for savings in government expenditure and, if feasible, to assess the role of government in the Canadian economy. The tendency to turn to government in the face of difficulties which can be surmounted by individuals or by business has an effect far beyond that of the rise in government outlays. Once business, or the people in general, believe that they can turn to government in every difficulty, the springs of initiative and self-reliance will run dry. These are fundamental to our enterprise system which has given Canadians the second highest standard of living in the world.

Government Deficits:

Related to the problem of high and rising government expenditures is that of budgetary and particularly cash deficits. In the recent Budget Speech the Minister of Finance estimated the budget deficit for the fiscal year ended March 31, 1959 at $617 millions and the cash deficit at $1,263 millions. The projected budgetary deficit for fiscal 1959-60 is $393 millions and the cash deficit is estimated at $850 millions. From the standpoint of the economy the cash deficit is more important than the budgetary figure. The inflationary potential of such large cash deficits is considerable particularly when a sizable portion must be financed, under present circumstances, by sales of short term obligations to the banking system—thus increasing the money supply.

The economic impact of government deficits in a period of recession such as 1957-58 is appropriately stimulating and may even be acceptable in the early phases of a recovery. Some deficit position may be unavoidable in a period like the present, in the opinion of the Chamber, when recovery is not far advanced and unemployment is still large. The present difficulty relates in part to the manner in which a substantial portion of the deficit was created (by undue emphasis on the ordinary or continuing rather than on capital expenditures) and by the way in which it has been necessary to finance it. The danger of deficit financing over the years from the inflationary standpoint was recently stressed in a book published in the United Kingdom ("A Short History of Money" by Mr. George Winder). Mr. Winder believes in reference to the economy of the United Kingdom that budget deficits (including "below-the-line" expenditures) is the only cause of the inflation which has taken place since the end of World War II in that country. Conversely he states as follows, "Once the over-all budget is balanced and kept in that condition, inflation will undoubtedly cease". This is an extreme statement but we include it merely to stress the importance of this particular portion of the brief.

The Chamber does not feel competent to judge whether this drastic assessment of inflationary pressure in relation to the budget defict is fully applicable to Canada, if, indeed, it is valid for the United Kingdom. In any event, it believes that the prompt and assured closing of the cash deficit gap would dissipate a great deal of the inflationary psychology that is becoming so prevalent in Canada.

Producer Groups (including business, labour and farmers):

The Chamber recognizes that the most serious aspects of the problem of inflation can develop under conditions of insistent demand, when all our resources, human, material and financial, would be under considerable strain. Under such conditions (which certainly do not exist at the moment) practically all businesses are working at capacity, employment is "full", and the tendency on the part of the producer groups, employers and employees in particular, is to settle their differences by sizable increases in rates of pay and other benefits which add to the inflationary pressures under those conditions. Even under present circumstances there have been instances where the demands made upon employers by powerful unions in contract negotiations have been so substantial that they have resulted in price increases. Unfortunately also the alternatives to such settlements are costly strikes which, of course, injure the employees, the employer and the community.

This problem may be multiplied many times across the economy under the conditions cited, and the wage-price increases are financed in effect by the increases in the money supply that developed in prior periods, e.g. in fighting previous recessions, with government deficits financed in part through the banking system. Certainly in North America by and large farmers (another important producer group) have not contributed directly to inflationary pressures in recent years. Parity payments and subsidies, however (particularly in the United States) do contribute to inflationary pressures through the government accounts. One is reminded here of Lord Keynes' description of inflation as "a process which engages all the hidden forces of economic law on the side of destruction".

Inflationary pressures are particularly strong when capital investment requirements are high and employ all the domestic savings available and (in Canada) draw on savings from abroad as well. If the foreign exchange situation permits, higher imports do cushion to a significant extent the effect of such pressures of demand on the domestic economy although admittedly creating rather serious competitive problems for Canadian industry.

The Chamber recognizes that in a developing country like Canada strong waves of capital investment are inevitable and perhaps desirable. Nevertheless, it believes that with the leverage on our economy exercised by the United States (which in economic terms is some 14 times larger) Canadians must at times exercise unusual self-discipline and restraint. In the opinion of the Chamber this observation is particularly pertinent in most wage contract negotiations since wages represent generally such a high percentage of the cost structure. Herein lies a challenge for otherwise the prospects of non-inflationary growth are largely illusory. Certainly the longer-term penalties of inflation—lost markets (both at home and abroad) to farmers and manufacturers, lost real wages to labour, loss of savings to all—more than offset any temporary advantages that excessive wage-price increases might bring. Should inflation carry on unchecked sufficiently to induce speculative excesses of the 1920 type (commodities) or of the 1929 type (stocks) creating unstable shifts in resources the ensuing recession could cancel out very quickly the fruits of many years productive achievements of all the groups mentioned. The Chamber further affirms that even "exemplary" bargaining on the part of management and labour, permitting increases in productivity which would normally find reflection in stable or even lower prices, cannot succeed if the largest economic units in the country (governments) do not balance their fiscal accounts (or, as they should, operate budget surpluses) during periods of great economic strength.

The Consumer:

The Executive Council believes that the position of the consumer is a most strategic one in an inflationary environment. Consumer expenditures represent after all about 64% of all economic activity in Canada. Consumer appetites, particularly for durables, stimulate a significant percentage of private capital investment. The Executive Council believes that an educational programme on the inflation issue "beamed" at consumers could not fail to produce some constructive results. The objects of such a programme would be to apprise consumers of their role in the inflation drama, especially the importance of buying with care and discretion—in short helping to make price competition the effective regulator it can be. In this connection the observation made in the final report of the Royal Commission on Canada's Economic Prospects is pertinent, "The interplay of supply and demand as expressed in the workings of a free and flexible market economy will make the greatest contribution to the growth and development which we foresee. Wide dissemination of the powers and responsibilities involved in making economic decisions among large numbers of people in the ordinary course of their business transactions, in other words the operation of a free market economy, has been responsible in large measure for the very considerable increase in living standards in Canada over the years. And we believe that if the continuing developments and the future improvements in income levels which we have forecast are to be realized, this will be dependent upon the maintenance of the free market system in the future."

Summary and Recommendations:

The Executive Council notes that the record of the post-war period in Canada (and in the United States and the United Kingdom as well) show that a strong growth trend, while very desirable from many points of view, carries with it the danger of some depreciation of the currency. It is of the opinion that the objective of non-inflationary growth over a period of years while difficult is not impossible of attainment. It further believes that steady economic growth is so important to Canada that every sound method for encouraging it should be employed. Our experience in 1957-58 (2 years when there was no growth, in volume terms, in Canada) showed that serious problems, particularly unemployment, are created or accentuated in such periods and their solutions are neither prompt nor easy.

In respect to the present inflationary situation the Chamber believes it will not prove serious this year with particular reference to the utilization of our human and material resources at or about capacity, which seems most unlikely in the next 18 months.

That is, it does not seem possible to us that the Canadian economy would be operating overall at full capacity before the end of next year.

It does affirm, however, that inflationary pressures may increase significantly in Canada over the next few years despite certain countervailing forces.

The Executive Council therefore urges its fellow-Canadians, with leadership from their government, to make good use of the period immediately ahead and endeavour to "get their house in order" in respect to the possible recurrence of inflationary pressures in our economy. Accordingly, the Executive Council makes the following recommendations to the Senate Finance Committee believing that, if implemented, they would constitute a reasonably effective anti-inflation programme at this time.

1. The Executive Council believes that both fiscal and monetary policy have important roles to play in the containment of inflationary pressures in the economy. In the opinion of the Chamber fiscal policy

should be concerned with the reduction of government outlays and the closing of the large cash deficit. All categories in the government accounts should be scrutinized with a view to postponing expenditures wherever possible. The Chamber believes that monetary policy, subject to the exigencies of managing the government's debt, should endeavour to allow increases in the money supply—just sufficient to finance a reasonable rate of long-term annual growth. Where speculative excesses appear or threaten the orderly course of business and markets it believes that the monetary authorities should take appropriate action promptly within their allotted powers.

2. The Chamber is also of the opinion that an objective investigative body (similar to the Hoover Commission in the United States) could serve a useful purpose by reporting to Parliament and making recommendations on the government's fiscal affairs. The terms of reference should include a re-examination of the entire tax structure as well as a survey of the departmental expenditures (statutory and non-statutory-defenceand civilian).

3. The Chamber believes that it is timely for all important groups in the community—particularly business and labour to conduct educational programmes among their constituents on the inflation issue. The Canadian Chamber of Commerce is now engaged in such an educational programme with its members. It believes that the issues should be presented in a factual but non-technical and non-alarmist manner, should stress that inflation is by no means inevitable but point to the longer-term advantages to be gained by every Canadian if prices remain at a reasonably stable level. The Chamber is also of the view that such an educational compaign should make it clear that achieving this objective is not always a painless matter, and when the fiscal and monetary authorities in the general interest decide that tax adjustments or monetary restraints are required such policies should be accepted and supported.

4. As a corollary to number 3 above, the Chamber hopes that there will be brought to consumers through the efforts of all interested parties a greater awareness of the causes and consequences of inflation. Such information should point out the relationship between increased transfer payments to individuals and higher taxes, unrealistic wage increases as a contributor to higher costs, and also the significance of everyday buying decisions. Consumers can and do contribute to the containment of inflationary pressures by being price and quality-conscious. It should not be overlooked that business concerns are themselves important consumers as well as the major producers of goods and services. Government, too, is the greatest single buyer in Canada and careful price-conscious procurement is indicated here as well.

The Executive Council believes that the Canadian people can and will respond and meet dangers and great issues. This has been proved over and over again. We believe that inflation is potentially just such an issue, and when Canadians understand the possible longer-term dangers to their trade, their savings and their living standards, the response to a well-conceived anti-inflationary programme might well be greater than many have suggested. The Executive Council believes that government precept but particularly example in all matters pertaining to the inflation issue is required. It wishes to affirm to this Committee that its own programme in this field will be carried on through its widespread affiliated groups with vigour and with a sense of public duty.

The Executive Council of The Canadian Chamber of Commerce welcomes this opportunity of presenting its views on what it considers to be an extremely important problem to the Members of the Senate Committee on Finance. The Chamber's sole concern is the continued growth and development of a prosperous Canada in the interests of all Canadians.

The CHAIRMAN: That is an extremely good brief.

Mr. EDMISON: I will read the appendices if you like.

The CHAIRMAN: What is the wish of the committee?

Senator BOUFFARD: I think the appendices should be read.

Mr. EDMISON: As noted earlier, Mr. Chairman and honourable senators, Appendix A is an attempt in a page and a half to summarize Chamber policy and philosophy in respect to the issue we are discussing.

APPENDIX "A"

CHAMBER POLICY AND PHILOSOPHY

The Canadian Chamber of Commerce believes that the basic aim of public policy should be the maintenance of personal freedom. In this atmosphere the consumer is free to make his own choice as to how, when or where he will spend his income. The Chamber believes that the Canadian people can rightly judge what is in their own interest and can best exercise this judgment through individual freedom of choice.

These individual choices collectively provide the great stimulating and controlling force governing production. For this force to operate effectively, suppliers of goods and services must be free to compete for these choices, satisfying old ones more economically and searching out new ones promptly. Hence come the phrases "freedom of enterprise" and "the system of private competitive enterprise.

In this competitive atmosphere, only the efficient suppliers of goods and services can prosper. Suppliers who remain inefficient or who continue to produce things no longer wanted will not survive. Through such competition, changes take place and efficiency is increased to the benefit of the consumer.

The Chamber is opposed to all state interventions and controls beyond those clearly necessary to protect some accurately defined public interest and believes that government activities should not involve detailed participation in the decisions of private business, or competition by state agencies with private enterprise.

The Chamber recognizes the importance of and the necessity for business profits. Money is invested in private enterprise in the hope of earning a profit and such investment is necessary to the maintenance and growth of our economy. Business profits not only provide a return on investment but are essential for business progress and economic expansion. Profits are required as an inducement to attract new capital through the investment process, and, when retained, assist in providing for essential growth in an expanding economy. The main fruits of a growing profitable business are more jobs, more and better goods and services, and a higher standard of living for all Canadians.

The maintenance and further improvement of the high living standard of Canada are dependent upon productive efficiency. Greater productivity is the key to a growing and prosperous economy and productivity in turn is dependent upon many factors, among which are sufficient capital to supply technological improvements, interested and capable employees and efficient managerial organisation and methods. Legislation in this field should be for the purpose of ensuring a proper balance of rights and responsibilities of employees on the one hand and of employers on the other, with due regard to the public interest. While the Chamber supports the principle of collective bargaining between the representatives of employers and employees, there must be recognition of the fact that labour unions and other employees' organizations have responsibilities to the public, to employers and to their own members, just as management has responsibilities to the public, to its employees and to shareholders. The Chamber believes that both parties should be equally responsible under the law.

The Chamber believes that close and continued surveillance is necessary to ensure economy in government expenditures and efficiency of government administration. In the field of social welfare, the Chamber believes that a careful distinction must be drawn between what is socially desirable as an ultimate aim, and what can be achieved without damaging the system that

makes our social welfare advances possible. Any additions to the already extensive welfare programs should be carefully assessed, not only with regard to their initial costs, but also with regard to their foreseeable growth and supplementary requirements over the years. In principle, the Chamber believes that any additional welfare expenditures should be delayed until the full impact of present commitments can be assessed. Individuals should be encouraged to make every effort to provide for their own future and protect themselves against ordinary hazards.

APPENDIX B

EXCERPTS FROM THE SUBMISSION OF THE EXECUTIVE COUNCIL OF THE CANADIAN CHAMBER OF COMMERCE TO MINISTER OF FINANCE AND THE MINISTER OF NATIONAL REVENUE ON INFLATION AND RELATED SUBJECTS, FEBRUARY 13th, 1959.

Inflation:

Inflation is a complex and controversial subject. At this time, inflationary pressures in the Canadian and, indeed, in the North American economy are more latent and psychological than real. Unemployment is relatively high, stocks of most goods are ample, consumers' inventories of major items, such as houses and cars, are generally adequate. Shortages are virtually non-existent. More important, capacities to produce a wide range of products, both primary and manufactured, have increased considerably as a result of the high capital expenditures of recent years. In many cases rated capacities are considerably larger than indicated, particularly with any extension of the work week, or after allowance for additional shifts. In other words, in most lines, supply, particularly potential supply, is much greater than current or near-term demand.

In these circumstances, wherein lies the inflationary danger? The answer is partly in public and investor psychology, perhaps more importantly in recognition that a set of economic conditions might develop over the next few years which could generate major inflationary pressure. As to the present inflationary psychology, it seems to stem largely from a belief in "the inevitability of inflation", encouraged by the continuation of price increases during the recent recession. On the cost side, labour demands at time have pushed wages beyond their share of productivity. The Executive Council also recognizes that Canadian business has not always accepted its responsibility of resisting increases in cost, particularly wage demands. On the monetary side, inflationary thinking is influenced by large current and prospective government deficits which may have to be financed, at least in part, by increases in the money supply, which adds to the inflationary potential. It is also true that consumers, affected by inflationary psychology, are less resistant to price increases, and businessmen, in anticipation of price rises, are more likely to accumulate inventories and invest in plant capacity in excess of near-term requirements. Deficit financing by government against a background of strong economic recovery, with the government in competition for large capital requirements with private borrowers, could make demands on the capital markets that could not be readily met at a given time, and might also well be in excess of available savings.

None of the foregoing phenomena have developed to any extent as yet. However, should the pace of business recovery accelerate during the next year or two, certain of those conditions, fed by an inflationary psychology, might well produce a brand of inflation that could not by any means be

designated as "creeping". It would, indeed, be salutary for the government authorities to give notice that should such conditions develop they would not hesitate to check the increase in the money supply and also allow market conditions to develop under which interest rates might rise considerably. Also, on the fiscal side, the Government should go on record that budgetary balance, or surpluses, as circumstances warrant, would be sought through the curtailment of expenditure, and, if necessary, hy higher taxation. Such assertions should, under present conditions, be sufficient to dispel a good deal of the inflationary psychology. Moreover, a forthright statement on monetary and fiscal policy might influence businessmen and consumers to the extent that many decisions on inventary policy and capital spending would be taken on the assumption that price stability is a realistic near-term prospect. The Executive Council also believes that it is a requisite for safeguarding the value of the dollar and the cost structure of our economy that the federal government, as the biggest single spender in the country, set an example of restraint for other spending groups in Canada.

The Canadian Chamber of Commerce, through its affiliated Boards of Trade and Chambers of Commerce across Canada, is planning a program of public education on the inflation issue. This project, which we are confident will receive widespread approval and acceptance, is endeavouring to treat this difficult subject in a factual but non-technical and "non-alarmist" manner and to demonstrate that inflation is by no means inevitable. The Chamber is stressing the ultimate danger to every group of Canadian consumers and producers from the loss of purchasing power of the currency, whether this results from a sharp depreciation or from erosion over a lengthy period. Also to be emphasized is the serious threat to our industries, as inflation of the cost structure weakens their competitive position at home and abroad.

Fiscal Policy:

The Executive Council has for many years asserted that tax rates, both individual and corporate, are too high in Canada. It is still of that opinion, and is most concerned that with a record Gross National Product and no significant recent reductions in tax rates a substantial deficit is in prospect. The Executive Council recognizes that this deficit results in part from reduced revenues in a period of recession, but is concerned that to an important extent it is caused by increased expenditures of a continuing rather than an anticyclical nature. Moreover, experience has shown that this type of outlay has a tendency to increase involuntarily over a period of years. The Council believes that emphasis on expenditures for public works, or by way of payments to provincial governments, which in turn would largely be spent for capital purposes, would have been preferable as deficit-creating expenditures during the 1957-58 period. Such anti-recession spending of a capital nature could be readily curtailed or even eliminated as economic conditions improved. It should also be stressed that well-conceived programmes of capital expenditures, initiated at a time when private commitments were being reduced, would have had minimal effects on the capital markets. Also, in a country like Canada with regional economic problems, this type of expenditure could recognize rather effectively the uneven impact of recession on various parts of the country. In this context, the Executive Council wished to commend the government for its special capital projects that have been initiated in various regions of Canada, which should add materially to our national wealth.

The Executive Council recommends that all government expenditures, including defence commitments in this period of technological transition, be carefully scrutinized and subjected to periodic review. In the light of the current business recovery and the prospect of continuing economic improvements in

1959, the Executive Council strongly recommends that, wherever feasible, all outlays of a postponable nature, whether on capital or current account, be deleted from the estimates, in deference to existing and irrevocable commitments. In the period immediately ahead it is possible that some budgetary deficit may be appropriate to ensure continued recovery in the economy. However, the Executive Council believes that such a deficit should be smaller than in the current fiscal year and ultimately, as economic conditions improve substantially, the government should look to a budgetary surplus.

Concerning taxation, the Executive Council believes that there is still room for re-vamping and revising of tax schedules, and the removal of anomalous taxes, which are largely discriminatory and produce little revenue. The Chamber believes, however, within a reasonable period the Federal Government must look to substantially increased revenue which can only be achieved by the resumption of vigorous growth, accompanied by stringent control of expenditures. In the opinion of the Council, this growth, particularly if it is to be sound and non-inflationary, must be fostered by wise fiscal and monetary policies. These would include the encouragement of private enterprise to make constructive longer-term plans and implement them in part by risk capital.

Monetary Policy:

The task of making useful recommendations in the field of monetary policy in Canada at the present time is admittedly a most difficult one. This is particularly due to the forces now operative or likely to influence economic activity in 1959 and beyond, some of which are conflicting. These include, on the one hand, upward pressures on costs and in due course on prices, probable new increases in the money supply resulting from some monetization of the federal debt, possible effects on the price structure of extensive inventory accumulation, the effects, though not a near-term probability, of a new wave of private capital spending, and finally, in a perennially tense international situation, the possibility at some stage of new defence outlays being superimposed on an activated economy.

On the other hand, it must be recognized that our economic recovery from the 1957-58 recession is not far advanced. There is still a good deal of slack in the economy and considerable unemployment. The prices of most commodities, particularly those entering into international trade, have shown only modest improvement, and wholesale prices have been quite stable for nearly a year. Another factor in the dilemma of monetary policy is the serious problem posed in 1959 of the successful management of the federal debt. In this connection, a desirable objective is the encouragement of public investment in government obligations, particularly in medium or longer-term maturities. This is difficult of achievement at this time because of the unfortunate experience of the public in the government bond market during the past year, some recent issues having declined substantially, and also because of the public's inflation-inspired interest in equities. It must also be recognized here that monetary policy in the United States is a background factor of great importance. With interest rates rising in the United States during recent months, almost inexorable pressure has been placed upon the Canadian high-grade bond market. Also the government's large conversion loan operation in the summer and fall of 1958, while having the desirable effect of extending the average maturity of the government debt, made no impression on the problem of new money requirements.

It is difficult to make a case at present for easier money having regard to the inflationary environment that is being created, however latent the pressures may appear. This is particularly the case with major government security offerings in prospect, of which an indeterminate amount may have to be underwritten by the banking system, and with the admitted desirability of financing

the federal government's cash deficit with a minimal increase in the money supply. This is a paradox since a monetary policy favouring low interest rates is usually appropriate during the early phases of business recovery from a recession. Also, as noted above, with the Canadian economy still experiencing substantial unemployment and with most basic industries operating well below capacity and many stable exports in world-wide over-supply, it is difficult to recommend a more restrictive monetary policy than now prevails.

In this somewhat confused situation a "neutral" but flexible monetary policy seems appropriate for the time being. It goes without saying, however, that monetary policy should be vigilant in the period ahead and stand ready to help contain any inflationary pressures that might develop as the economy recovers to the point where human and material resources are almost fully employed.

The CHAIRMAN: We will now open the meeting to a question period.

Senator BRUNT: Mr. Chairman, would the speaker look at page 7 of the brief, the paragraph beginning with the words,

> "This problem may be multiplied many times across the economy . . .

and in that paragraph you say: "Parity payments and subsidies, however (particularly in the United States) do contribute to inflationary pressures through the Government accounts." Would you care to enlarge on that, as to how they contribute to inflation?

Mr. EDMISON: Well, Mr. Chairman and honourable senators, I would say that what we are suggesting here is that if, through the Government accounts substantial payments are made to any given group they will in effect contribute under certain conditions to the Government deficit and therefore have much the same effect as any other elements that create a Government deficit, we are trying here to outline the effects of Government deficits, particularly under conditions when the economy is under some economic strain and suggest they do generate considerable inflationary pressure.

Senator BRUNT: It is because it adds to Government deficits rather than having too much money for too few goods?

Mr. EDMISON: That is right.

Senator BRUNT: One other point I wanted to bring out arises from page 8, where you say, "Should inflation carry on unchecked sufficiently to induce speculative excesses of the 1920 type (commodities) . . ." Surely you do not think there will be any of that today with the surpluses we have in commodities.

Mr. EDMISON: No, I certainly do not. We are looking to the future in this section and postulating conditions that might develop if our whole economy were under strain; then some of the things we make in that commodity area you speak of are likely take in strong demand then those (inflationary) conditions might exist but certainly you are quite right they do not exist today.

Senator BRUNT: First of all you would have to eliminate all surpluses before you could have any excess speculation in commodities.

Mr. EDMISON: That is right.

Senator BRUNT: And as long as there are surpluses you cannot very well have an excessive speculation in any commodity.

Mr. EDMISON: It is not only a question of the surplus, but the capacities behind them that have been increasing so substantially that offer some relief (against inflation) in this area and particularly I think most Canadians in the resource field recognize that their problems today are the problems of selling what they can produce.

Senator Brunt: In disposing of what they can produce rather than any danger from excess speculation.

Mr. Edmison: It seems far removed at this time.

Senator Reid: May I ask a question arising out of something you said on page 8, which reads: "The Chamber further affirms that even 'exemplary' bargaining on the part of management and labour, permitting increases in productivity . . ." Is that just a pious hope or is that a factual statement whether such a thing takes place between management and labour in allowing increases in productivity?

Mr. Edmison: Well, there are a number of bargaining arrangements that are reaching the headlines and so there must be, and indeed there are, a lot of bargaining arrangements that take place in the country in respect to which the word "exemplary" is not the right word to use. In any event, many adjustments are moderate and what we are hoping or suggesting is that a full comprehension of the implications of inflation and its damaging effects over a long period of time for everyone will make more of such bargaining arrangements "exemplary". I think many of us feel that a lot of decisions in respect of pricing, and a lot of decisions in respect of cost that have to do with this bargaining are essentially short-term and probably in our approach to all of these groups we should stress the long-term, stress the fact that if they had a little more vision they would see what have tried to suggest here, that the further they look ahead, the more concern there should be about some of these (inflation) issues and the more restrained they should be in their bargaining.

Senator Reid: I ask a question in relation to another item on page 3. Is it a fact, or is it not correct to say that the G.N.P. price figures given do not mean that each year there is an increase in actual products or articles.

Mr. Edmison: That is right.

Senator Reid: So, therefore, that would bring about inflation, that is, if you get the same number of articles and hire G. N. P. figures each year, it must mean inflation.

Mr. Edmison: That is right because the gross national product is computed at market prices; it does not represent physical volume of production. So when we say that the Canadian gross national product increased 134 per cent, (1947-1958) it includes that price factor.

Senator Reid: I think it would be very enlightening if some association would give us the actual amount of products produced each year, such as iron and steel, and then we would have an idea of the increased price.

Mr. Edmison: Well, we have a physical production index in Canada. Perhaps it should be in the forefront to a greater extent than it is; but you can get a rough idea by taking the difference between the gross national product index and your consumer price index to find out what went on in physical terms in any given period.

Senator Isnor: I would like the witness to turn to page 3, Mr. Chairman, the paragraph dealing with West Germany's recovery as compared to ours, so far as the activity in the control of prices is concerned, and ask him what he considers the main or most important factor in the development of West Germany as compared to our control and increased productivity in the export trade.

Mr. Edmison: Well, Mr. Chairman, the honourable senator is asking me a question that I do not feel competent to answer adequately in respect to West German experience. I am certainly not a student of West Germany, but my impression certainly has been that the restraint which they have shown

in their internal economic affairs, plus the tremendous energy which they have evidenced, which has led to such high increases in productivity since 1948, have been largely responsible. A combination of restraint and energy, I would say, sir.

Senator ISNOR: The reason I asked you that question, of course, is because you mentioned West Germany in particular.

Mr. EDMISON: That is right.

Senator ISNOR: And I thought naturally you would be able to give us the main factor.

Mr. EDMISON: The evidence is in the increase in their consumer price index which, although I have not the figures here, is appreciably less than our own. Any manufacturer competing with imports from that area can tell you very eloquently the effects in terms of the prices of goods with which he is competing.

Senator ISNOR: You cannot give me the main factor? There must be a main factor in your mind, I should think?

Mr. EDMISON: I think it is a productivity factor which arose from a number of factors. It is the productivity which keeps your price level down. I would say restraint in the arrangements within their economy, and the tremendous energy they were quite prepared to expend. They have been quite willing to work very long hours, and so on. Those are the things that contribute to it.

Senator PRATT: I was just wondering, is it not a fact that, in referring to West Germany, their policy has been, first of all, with regard to their export trade, to give it central assistance by reason of credit insurances, and so forth, and not only is their production more regulated than in some countries, but they also have some protection for their own consumer demand for what they produce themselves. It is a combination of the two, is it not?

Mr. EDMISON: That is why, Mr. Chairman, I was reluctant to give a quick answer. There are so many factors in the West German experience.

Senator LAMBERT: While we are dealing with page 3, may I ask, referring to the increase in consumer prices, 1947-1958, why the figures show such a marked increase, even though it is estimated, in the United Kingdom? I should judge that the great percentage or portion of that increase would be represented in the years before the last two years, because everything we have heard here by statements from overseas, from publications such as the *Manchester Guardian* and the *Economist*, would indicate that as a result of the application of understandings with labour, and so on, in the last two years, that has prevented price rises and wage increases. If that is true, it must mean that in the earlier years inflation was most marked in the United Kingdom. Since that time there has been a curtailment. Is that a fair assumption?

Mr. EDMISON: I would not want to take a given year and say that was the year from which stability or relative stability stemmed. Certainly in the case of all three countries the great surge in prices took place in the earlier part of this period shown. In the case of the United States and Canada, for example, I think you would find that in the first four or five years of the period shown you would have had about 60 to 70 per cent of that price increase. In the case of the United Kingdom, I think we all have to recognize that the reconstruction programme in that country immediately after the war was a very much more serious problem and a much more inhibiting factor in developing the productivity of their whole economy than in the United States and Canada, and it was evident too they have had pressure on their resources for a much longer period of time than in the case of Canada and the United States (after world war II), and were not, in other words, in a position to

benefit quickly from the kind of capital expenditures that we were able to make earlier; I do not think it is too surprising that the United Kingdom price experience developed in the way it did.

Senator LAMBERT: Have you anything to say about the stabilizing effect of the policy in the past two or three years? Because we know from the imports in this country, from low price cars, and so on, that they are certainly producing competitive goods.

Mr. EDMISON: I am under the impression that their experience in the past two or three years has not been unlike our own, that it has been very comparable to that in North America. Prior to that there was a much stronger price increase for the reasons given.

Senator LAMBERT: The *Manchester Guardian* stated within the past two months that the purchasing power of the pound in England was worth over five dollars in our money, that is, in Canadian and American funds.

Mr. EDMISON: We are getting into another subject, sir.

Senator LAMBERT: I just mentioned it because I think that the figure of 67.7 per cent increase in consumer prices between 1947 and 1958 as compared to Canada might leave an impression that does not really become justified at the present time or within the past two years.

Mr. EDMISON: We were not endeavouring, sir, to create any particular impression other than to assess what has happened in this particular 11-year period, and to look at Canada's position relative to that of the other two countries in respect to similar changes. Certainly during this 11-year period you would find a number of trends in each country, and the trend you have mentioned is undoubtedly an important one in the United Kingdom but you will find similar ones in the United States and Canada as well. This is an 11-year post-war period which we assessed.

Senator LEONARD: I take it from your excellent brief that the Chamber of Commerce is against any policy for Canada with respect to the desirability of a creeping inflation. Is that correct?

Mr. EDMISON: That is right, sir.

Senator LEONARD: One other question. In the cycle of factors that involve rising prices, you have mentioned in your brief that two of the most important ones are monetary policy and fiscal policy. Would you not agree that the major factor in inflationary influences is supply of money?

Mr. EDMISON: I think, sir, the question of monetary policy and the supply of money are very closely related.

Senator LEONARD: Yes, that is true, and I am assuming that they mean the same thing; in other words, that the monetary policy governs the supply of money. Is that not the most important of all factors?

Mr. EDMISON: Certainly you cannot have major inflationary pressure without an increase in the supply of money. It is impossible.

Senator LEONARD: That is right.

Senator BRUNT: Do you think that is more important than the terrific increases in wages which have taken place during the last five years?

Mr. EDMISON: The only way you can validate such increases, in effect, pay for them, is through an increase in the supply of money.

Senator LEONARD: That is the key. I have one more question. Somewhere in your brief I believe you mention the question of wage increases beyond productivity. Would you subscribe to the idea that wages should be maintained within the ambit of the increase in average productivity?

Mr. EDMISON: There are great difficulties in measuring productivity as you know, Senator Leonard.

Senator **Leonard**: I mean as a general rule.

Mr. **Edmison**: There is the difficulty of measuring productivity. It is something you know something about after the event has happened. I believe efforts have been made to relate wages in some way to productivity, but it is almost impossible to do so accurately. We would take the position, of course, that so far as wages are concerned the labour groups should not receive all the fruits of productivity because you can make a strong case for productivity being the result mainly of increased capital investment; moreover, we all know that in order to obtain additional productivity and to continue to improve our standard of living we must attract into our system these capital increments —and therefore the management group, the shareholder group, need to obtain appropriate incentives in order to keep this process going. Therefore, in principle the Chamber of Commerce would certainly say that labour should not receive all the fruits of productivity.

Senator **Leonard**: You think it should be divided three ways between the consumer, the profits, and the wages?

Mr. **Edmison**: In so far as consumer prices are concerned I think as businessmen we would take the view that price competition is what mainly protects the consumer, and logically the consumer should be a beneficiary of the productivity going to the other two groups.

Senator **Leonard**: Thank you.

Senator **Bouffard**: I would like to have Mr. Edmison's comments on the effects on inflation of high taxation.

Mr. **Edmison**: Well, sir, high taxation increases costs, and if you increase costs you add something to the inflationary picture. Again you must be careful to define the period to which you are referring, but by and large increases in taxes are increases in costs just as increases in wages and increases in freight rates are increases in costs.

Senator **Leonard**: Would you qualify that by dealing with the situation where an increase in tax produces a budgetary surplus?

Mr. **Edmison**: That is why I say you have to be careful about the period. Dealing with the period we are in, for example, and weighing all the facts, I think most of us would agree that if you can help balance your Government accounts and help close your cash deficit by some increase in taxation which doesn't unduly increase costs, it is wise to do so.

Senator Bouffard: Take public utilities that have to increase their costs more than they should on account of the fact they have to pay taxes at the rate of 47 per cent, and that is all borne by the consumer. What is your comment on that?

Mr. **Edmison**: I am sorry, Mr. Chairman, but I did not quite follow the question.

Senator **Bouffard**: Take the case of public utilities. I know one public utility that increased its rates by $50 million when it only needed to have $25 million, but this had to be done because the utility had to pay taxes to the extent of 47 per cent.

Mr. **Edmison**: Certainly in the case you cite it would add to inflationary pressures more than would normally be the case, but qualifying it by Senator Leonard's comment, if you were helping at the same time to reduce a Government deficit you would have something on the other side of the scales as well. It simply underlines the fact that this is a very complicated question.

Senator **Brunt**: That is the understatement of the year.

Senator **Bouffard**: I think I read a statement by the Board of Trade of the province of Quebec to the effect that taxation was the most important thing in their consideration. Do you agree with that?

Mr. Edmison: Under certain conditions, but I would not make it as a general statement. I think in some cases it has inflationary implications, but I do not believe that at the present time it is a major cause of our troubles.

Senator Isnor: I was interested in Appendix A dealing with Chamber policy and philosophy. I certainly do not want to ask any embarrassing questions. When the Government officials are before us they say, "That is a matter of policy". I do not want to place you in that position, but I was wondering as to the interpretation of paragraph 4 in which you say:

> The Chamber is opposed to all state interventions and controls beyond those clearly necessary to protect some accurately defined public interest and believes that government activities should not involve detailed participation in the decisions of private business, or competition by state agencies with private enterprise.

I would like to know the Chamber's policy in regard to the Government's position a year or two ago as expressed in that price maintenance control legislation. What was your position then and today?

Mr. Reid: Mr. Chairman, I would like to refer this question to Mr. Sheridan, for he knows the history of the Chamber's consideration of this particular question, and in the process he might tell you how policy is formulated in the Chamber, which I think might be useful.

Mr. Sheridan: Mr. Chairman and senators, the question which has been raised by the honourable senator, I believe, refers to resale price maintenance and other allied subjects. This has become a considerable problem in so far as any effort to obtain a uniform point of view within the Chamber on this question of resale price maintenance. I might say that we took a referendum, among the more than 750 boards of trade and chambers of commerce across this country as to their attitude on this question and there was almost an equal division pro and con, and as a result it was not possible to formulate a national policy on this question. As Mr. Reid has said, perhaps it might be enlightening to the committee to explain how we formulate and develop policy such as has been read to you by Mr. Edmison.

The Canadian Chamber of Commerce, as indicated previously consists of more than 750 voting members and these are boards of trade and chambers of commerce in all 10 provinces. These are completely voluntary and autonomous organizations. There is no compulsion to join the national organization, it is done voluntarily, and each of these boards of trade and chambers of commerce members has an equal voice in determining policy. It is done in two ways, by referendum or by formation at an annual meeting. A resolution such as is proposed might be brought up at an annual meeting and the delegates representing the boards and chambers across the country vote on this question after a very intensive discussion of the pros and cons. They decide whether or not they are in favour or opposed to the measure. This is the weakness as well as the strength of the Canadian Chamber of Commerce movement in that it does not represent any specific group. There are no vested groups in the Chamber and only Member Chambers have the final determining vote on policy. The Chambers' concern is what is in the national general interest. For these reasons it was impossible for us to reach a final decision on this important question.

Senator Isnor: What you are saying is relating to the legislation of a couple of years ago?

Mr. Sheridan: That is right.

Senator Isnor: After having watched for a couple of years the effect, so I am told, that it has had on the smaller retailer whom you represent, are you prepared to stand by the 50-50 decision?

Mr. SHERIDAN: No, this decision which I spoke of previously was made on the basis of the two referenda that I mentioned, in the early part of the 1950's, I have forgotten the years, but last October at our annual meeting a resolution was proposed on the same subject designed to indicate that the abolition of the present legislation would be in the interests of small business, and yet at our annual meeting, after full discussion the resolution was defeated again.

Now, I may say,—and Mr. Morgan Reid may wish to say something about this,—the question has again been raised because it is a constantly recurring problem, and an ad hoc committee has been established in the Canadian Chamber of Commerce to look once again at this problem, but as of now the Chamber simply has no policy on the question.

Mr. MORGAN REID: Mr. Chairman, I have a few comments to make. First of all, I may say it is correct that this ad hoc committee has been appointed to give consideration through the summer months to this question which changes in character over the years, and presumably by the early fall the executive council will have some recommendation from this particular committee. However, I would like to go a little further. You raise the question of this particular paragraph and you said that it might be an embarrassing question. It is not. I should like to offer a word of explanation on that. The way this reads, the Chamber is opposed to all state interventions and controls beyond those clearly necessary to protect the some accurately defined public interest. Now, some accurately defined public interest means the protection of Canadians from the standpoint of the Pure Foods Act, the protection of Canadians against fraud—these are the areas in which we believe Government has a rightful place. Let us take a hypothetical case of another sort of thing and getting outside of Canada, I might say that I would not think that we would regard as something as acceptable in terms of Government intervention the kind of controls which the Japanese Government exercises over Japanese export industries, both in their marketing arrangements, quality controls that are established, a complete regimentation of those particular industries. This is a very clear case of the kind of thing which this paragraph refers to when we say that we are opposed to all such interventions beyond those clearly necessary to protect some accurately defined public interest.

Senator WALL: Might I ask whether you would extend a concept of fraud to something, let us say like inordinate profits being made by some segments of our economy because of certain monopoly positions.

Mr. REID: I would say that first of all we believe in competitive economy. If we have a competitive economy I do not think that the question of inordinate profits is one which is likely to arise, and I do not see how you measure it. But we do believe in the profit structure as being the basis of all growth in the Canadian economy and I don't think, with all due respect, sir, that this is the sort of thing which is likely to arise in a peacetime competitive economy. In periods of national emergency such as World War II there were, because of direct Government intervention, obviously large profits that could have been made in particular areas because of the monopoly situation which was directly the result of the economy being directed to the Ultimate victory, and this was met through very high taxation which was only supportable under those circumstances.

Senator ISNOR: And controls.

Mr. REID: And controls.

Senator ISNOR: I think you went pretty far afield, Mr. Reid, in bringing the Japanese into the sitaution in so far as tariff and state enterprise is concerned, as outlined in that paragraph.

Mr. MORGAN REID: I felt that this was one of those clear cases that I would not find that many members of the Chamber would disagree with.

Senator LAMBERT: You would not have in mind Crown companies by any chance?

Mr. MORGAN REID: Well, this is a very difficult situation, and I think that you could only answer it in terms of specific Crown companies. Each case has to be judged on its own merits, and some of these questions which arise at our national policy sessions and annual meetings and they are thoroughly debated at that time and policies established.

Senator PRATT: On the matter of Government subsidies on commodities which has been referred to, was that remark particularly applicable to subsidies for domestic consumption entirely or was it in reference also to the inadvisability of subsidies on exports.

Mr. EDMISON: Mr. Chairman, the honourable senator's question has very general application. If you are considering the whole breadth of Canadian trade and certain of our domestic production. All we are trying to get at here is the danger of dealing with a specific group in the community suggesting that if they seek and obtain subsidy treatment and then in due course you deal with another group eventually you will find that you have a whole network of subsidy arrangements, all of which tend to build up the overhead of our economy. As noted in the earlier questioning, when such items find their way into the Government accounts, and they seem to do so in an inexorable fashion, under certain conditions they add rather seriously to Government deficits and can create a certain amount of inflationary pressure. That was our term of reference here.

Senator PRATT: I understand that. I would suggest that the organization could make a very useful study of the effect of foreign subsidies which this country has to meet to some extent on our exports to different parts of the world. It may be that is something that can be passed along to the Canadian Exporters Association, rather than to banking and commerce. The fact is we are running into more competitive conditions by reason of increases in subsidies abroad. There is hardly a European country today that is not subsidizing its export products one way or another. Two examples are France and Norway.

I think this is a matter that requires very extensive study in its relation to the Canadian interests. Therefore, I would like to see the Canadian Chamber of Commerce use its influence with the Canadian Exporters Association in a study which might have some bearing on the Canadian policy.

The CHAIRMAN: Further to what you say, Senator Pratt, an example is the price of aluminum exported from Russia; that country must have subsidized its miners or manufacturers, because it certainly disrupted the aluminum industry in this country for many months.

Senator PRATT: I am not thinking so much about Russia and the communistic countries, though that is an important factor. It is more a question of the spreading of subsidies on exports in the free countries of Europe, such as France and Norway. One country after another is adopting that policy, and I think it is something that requires close study in Canada.

Mr. EDMISON: I think the honourable senator is more concerned about our competitive position than about the inflationary impact.

Senator LEONARD: Mr. Chairman, may I ask the witness whether all these subsidies—whether they be given in Norway or some other country—to assist exports have an inflationary tendency within the country concerned, unless they are coupled with controls that must be put upon the economy to make up for those subsidies. Is that not the picture?

Mr. Edmison: You are suggesting that when you are subsidizing one group which you think is important, you are penalizing another group that you think not is important. I think that of course is a principle that great exporting countries have employed—certainly the United Kingdom has favoured its exporters in various ways. I suppose in Canada we have to some extent done the same thing.

Senator Lambert: Wheat, for example.

Mr. Edmison: Yes; and in the United States there is a long list of examples, of which you are aware.

Senator MacDonald: Mr. Chairman, may I ask two or three questions? First, with reference to creeping inflation, I note what the witness had to say on it. I understand there is one school of economists which do not think there is any harm in creeping inflation. However, I won't press you for an answer to that question.

You refer in your brief to the Hoover Commission, which was appointed in the United States. Did that commission come up with any solution as to the great expenditure of public money, or was it helpful to the administration, and if so, in what respect?

Mr. Edmision: Mr. Chairman, the honourable senator probably refers to the two Hoover Commissions. Both these commissions made recommendations, and I understand as a result of those inquiries and their recommendations, some matters of expenditures and, let us say, some of the stream-lining functions of government, were improved, and overlapping was dealt with.

Certainly some of the reports—and we have to rely on them—lead one to believe the results were quite salutory in cutting back certain areas of government expenditure and in making certain savings to the American taxpayer. What the percentage was would be open to question. I think all I should say on the reports that I have read, is that the results have been substantial from both commissions.

Senator MacDonald: I note in referring to the work of the commission you refer to the effect on inflationary tendencies. On page 3 of your submission you say that the increase in consumer prices between 1947 and 1948 in the United States was practically the same as in Canada.

Mr. Edmison: If I am looking at the same figures as you are, senator, the American experience was about 24 per cent, whereas ours was 47 per cent (1947-1958).

Senator MacDonald: But it starts off in relation to the gross national product; you say the increase in consumer prices was practically the same as in Canada?

Mr. Edmison: I don't think that is quite a correct interpretation. The increase in consumer prices was greater in Canada (1947-1958), but our increase in economic activity was greater. I think all that suggests is that we experienced a stronger economic trend and paid a higher penalty in price rises for such a trend.

If you look at the history of the two periods in the two countries you will note it is not hard to explain: we had a very much stronger capital investment program in that period (as a per cent of G.N.P.) than the Americans.

Senator MacDonald: I was relating to the percentage figure. It seems to me the percentage of increase in consumer prices in Canada in the period 1947-48 in relation to the gross national product in our country and in the United States, was practically the same.

Senator Leonard: That is like comparing a horse with a rabbit.

Mr. EDMISON: The figures, sir, are not quite comparable. You can see the relationship, but they are not exactly comparable. You are comparing a price index with an index of overall economic activity.

Senator MACDONALD: I mention that in relation to the effect of the results of the commission in the United States, as to how helpful it was in so far as a study of inflation is concerned.

Mr. EDMISON: I would be inclined to qualify that a little bit for the reason that price controls in the United States came off, I believe, in a manner quite different from our own. Mr. Reid and Mr. Ross may wish to qualify this matter further. The consumer price index in the United States went up considerably more between 1945 and 1947 than it did in Canada in those two years. In other words, if we went back to 1945 in the case of those countries, we would see that the American index between 1945 and 1947 went up 24 per cent, whereas Canada's went up 13 per cent. In other words, the time interval when the price controls came off in the two countries—the manner in which the controls were taken off is perhaps as important as the timing—shows that a good deal of the American price increase was taken up in the earlier period. It is not fully reflected in our table. There is some validity to your argument, but I wanted to qualify it to some extent.

Senator MACDONALD: Do you feel if we appointed in Canada a commission similar to the Hoover Commission in the United States, that its findings might be helpful in a study of the inflationary trends which are operating in Canada today?

Mr. EDMISON: I think the Chamber believes that such a commission would make a helpful contribution. I would hesitate to give the Hoover Commission credit for the fact that in this particular period American prices went up somewhat less than in Canada. I think in so far as a review of the U.S. Government accounts are concerned there is no doubt whatsoever they performed a useful service.

Senator MACDONALD: Yes, I was only trying to relate it to our studies of inflation.

Mr. EDMISON: I think the relationship is not quite that close. We only suggest it was a contributory factor to an improved fiscal situation in the United States and suggest further that we should have such a study here.

Senator MACDONALD: Another question: Generally speaking, I gather from your brief that you thought that the present inflationary tendencies were due to fiscal and monetary policy, to consumer buying and to increase in wages. I think in your brief proper those are the points emphasized, in any event. You have absolved the farmers pretty well from all responsibility for any inflationary tendencies at the present time. What occurred to me is that in your brief you, by omission, appear to absolve equally from responsibility for any inflationary tendencies, the employers—that is, capital as opposed to labour. Now, it does seem to me that capital must assume some responsibility for this. For instance, we talk about consumers—blaming them for buying so much. But the temptation is so great, and that temptation is due largely to the manufacturer or the producer, in the first instance. I refer to the very attractive packaging, and his advertising you see over television, which one can hardly resist. I won't mention any particular product. That certainly is due to some extent to the position which the capitalist has taken. Then there was reference here to combines. Well, I know that combines are against the law, but there are certain combines which are within the law; and also there is the desire, and the zeal, and it is understandable, of the capitalist to make as large profits as possible. My question is, don't you think that you should add to the three which I have mentioned, that is, fiscal and monetary responsibility, consumer buying, and increased wages, the responsibility of capital?

Mr. EDMISON: Well, Mr. Chairman, the honourable senator's question, if I interpret it properly, indicates that perhaps there is some misunderstanding. The Canadian Chamber does not believe there is any strong inflationary pressure at the present time. We believe there is an inflationary psychology. We believe, however, that as and when the present recovery, as we hope it will, moves along, that in due course the economy might at some later stage be under strain. Under those circumstances there would be danger of inflationary pressures, and under those circumstances they might well develop, as indeed they have in the past. We have suggested here or outlined the forces we think are the main contributing forces to the inflationary pressures that might develop under those circumstances. Right at this moment, however we are in a position by and large where we have an ample supply of goods and considerable unemployment. However, on the question you raise about the employers, you will note that in the discussion of what we call the producer groups, we have included the employers with the employees and the farmers, and have suggested that under conditions which we envisage might come about in the next few years, the employers and the employees must exercise restraint,—that it is incumbent upon both of those groups to do so; In that sense I do not think we pick out the employees particularly as the group at which to level criticism. The only side reference we made was that we have noted that even under present circumstances when we have not a fundamental inflationary pressure in our economy there has been a tendency in some of these wage negotiations in important industries for great demand to be put on employers. We also suggested that if the employers gave in to all of these demands, (in order to stay in business) they would have to pass on some of these increases to the consumer in prices. The alternative, unfortunately, would be, as we have seen in some recent instances, costly strikes, which injure everyone. That is the main thesis, on the point you raised sir.

Senator MCKEEN: I wonder if I understood the witness correctly, that the Canadian Chamber says there is no inflationary pressure at the present time?

Mr. EDMISON: No significant inflationary pressure to speak of. We think there is an inflationary danger because of the inflationary psychology, but we don't believe at the present time there is serious inflationary pressure in the economy.

Senator MCKEEN: Then these groups you say are causing it, are not causing it, if there is no pressure?

Mr. EDMISON: No, but there is the possibility that these pressures will develop, and we have established the conditions under which we are fearful that they might develop.

The CHAIRMAN: I understand that you are speaking of the threat of inflation, particularly in the States; inflation is a little more serious down there than here right now?

Mr. EDMISON: Yes, they are further along in their recovery.

The CHAIRMAN: But we are studying here the threats of inflation?

Mr. EDMISON: That is right.

The CHAIRMAN: And I am sure that is what your brief is for?

Mr. EDMISON: Exactly.

Mr. REID: Might I add a comment? I think that probably what we are all concerned about is the fact that there has been a continuing erosion of the dollar particularly since the end of World War II, and of course some of the inflationary consequences are the direct heritage of World War II. What we are really basically saying in this brief is that at the moment at this particular time there is not evidence in the Canadian economy of severe inflationary

pressures, but we are still concerned over the longer run with what has been called "creeping inflation", which we do not agree with, because there are two things that happen, one, those who creep eventually run and, secondly, the severe prospect of boom and bust in sight.

Senator McKEEN: What is your definition of "severe"?

Mr. REID: They are both bad.

Senator McKEEN: I agree, but when does it become severe

Mr. REID: When inflation gets to the point, particularly through inflationary psychology, where people are so convinced that the only way is for them to change their assets into those things which will presumably rise in price over a period of time, this eventually gets to the point that there is no relationship between this process and values. If I might have your permission, sir, I have one definition, I guess you would call it, of "creeping inflation", which appeared in the Morgan Guarantee Survey, of May last, which I think is rather excellent, and pertains to this discussion:

> The chief beneficiaries of creeping inflation would be the borrowers and the successful speculators, those who would repay loans in cheaper dollars than "they had borrowed, and those affluent enough, shrewd enough, and lucky enough, to take large risks and to guess right. Creeping inflation, like all inflation, would redistribute wealth and income. It would do so blindly, without regard to equality, needs or desirability. Generally speaking, those who would lose by it would be those least able to afford it.

I think that is rather a good definition.

Senator McKEEN: Three per cent is what is considered right now as the group that is creeping. Where does it get to the point where it is severe? What percentage?

Mr. REID: Well, I would not take percentages, Mr. Chairman, I would suggest an annual three per cent of erosion in the dollar is a very serious matter indeed. You could not measure the final boom-and-bust cycle which might develop eventually.

Senator MACDONALD: That would not be creeping inflation according to your definition.

Mr. REID: You mean the 3 per cent annual rate?

Senator MACDONALD: Yes.

Mr. REID: I would say it is getting to be more than creeping.

Senator McKEEN: Isn't that what the rate has been over about the last 10 years?

Mr. REID: Yes I think we have it in here as 3$\frac{5}{8}$ per cent per annum over the past eleven years.

Senator McKEEN: There must be some pressures causing that, but you say there are no pressures.

Mr. EDMISON: In the light of what Mr. Reid just read, that excellent definition, I think we can say that the Chamber of Commerce feels it could not as a policy tolerate even a creeping inflation. All you can say about creeping inflation is that it is not as dangerous, and it is easier to adjust to than a more rapid inflation; but if you are going to erode the dollar the long-term effect is the same. Even the creeping variety has the effect of creating a psychological impact on people which spreads, and people are going to do the very things you don't want them to do. In other words, they are going to assume a trend and take actions that will tend to bring about that trend.

Senator McKEEN: As Mr. Reid has said, it has been 3 per cent over the last 10 years. I don't think you can say there isn't any pressure and it is just psychological.

Mr. EDMISON: There isn't any significant pressure at the moment.

Senator McKEEN: It has been arrested then?

Mr. REID: We are still concerned with the same forces which will bring about a resurgence of inflationary pressures in the future.

Senator LEONARD: Would the witness say there is no pressure at the present time when, apart from food, the cost-of-living index is moving up, notwithstanding the fact we have an excess of labour and supply of materials, and the wholesale price index is moving up and there is a psychology directed towards the purchase of equities and other things than contractual obligations? Are not these inflationary pressures?

Mr. EDMISON: I wouldn't describe them as pressures. Actually the cost-of-living index has not gone up much in the last six or seven months.

Senator LEONARD: Apart from food it has.

Mr. EDMISON: A little bit, but I think you will recognize some of the adjustments that have taken place in some of the components of that index have been delayed. They do not all happen at once. Some of the adjustments took place in the strong inflationary period of 1956 and early 1957. Others have been delayed working their way through. All we are suggesting is that in the present economy, while you have this psychological backdrop which is affecting the decisions of some people, certainly it is not the really dangerous inflationary pressure which you can get when all of your resources are fairly well employed and your whole economy, so to speak, is under strain. There is quite a difference.

Senator LEONARD: I agree, but it is still rather threatening or dangerous if you have these results take place at a time when you would normally expect a drop in prices.

Senator WALL: I would respectfully suggest that now is the time to hit this problem and not when the dangers become more apparent.

Mr. EDMISON: We have pointed that out in our brief. We have suggested that we have a little time to "get our house in order". In other words, to do something before the dangers are on our doorstep. That is why we think your deliberations here can serve a useful purpose in drawing attention to the nature of this problem, having in mind what might happen in the years immediately ahead.

Senator EULER: How would you combat it?

Mr. EDMISON: We have made a few suggestions. The first is that the Government, as the biggest spender, should at the earliest possible and feasible date, close that cash deficit gap. If that is successful there will flow from that event a number of salutory developments in this field.

Mr. REID: Mr. Chairman, one of the points in this brief is that the Canadian Chamber of Commerce is undertaking this year an educational campaign to appraise as many Canadians as possible of the causes and consequences of inflation. I would like to say that aside altogether from whatever reports or recommendations are brought in by your committee, sir, that the actual focus of public attention on the proceedings of this committee itself is of immense benefit to all Canadians in drawing to their attention the causes and consequences of inflation.

The CHAIRMAN: I heartily agree with that.

Mr. REID: I would like to ask Mr. Sheridan if he might in a few words point out what we are attempting to do, and how we go about it. It is an objective approach and there is no bias involved for any group in the community. We feel inflation is one of those things which are a matter of concern for every Canadian, whether an employer, employee, civil servant or entrepreneur of any kind.

Senator REID: I wonder if I can ask the witness whether his organization has ever made any study of the actual cost of living in the United States as compared to Canada? I am not talking about statistics given by economists but I am talking about the actual cost of living. From what I know of the western United States and British Columbia, despite higher wages given across the line it is my experience that the actual cost of living and cost of articles are less there than they are in British Columbia. I have often wondered if any study has ever been made as to the actual costs of things that the people of the United States are buying as compared to what we are buying in Canada, for it must have a great effect on our economy.

The CHAIRMAN: How do you feel about world imports coming into this country and the United States? Don't you think they are choking inflation to quite a degree? I am thinking about motor cars, for instance.

Senator REID: Just getting back to my question for a moment, I have checked up and the housewife in the United States, in the west anyway, can buy goods cheaper than we can in Canada where the price is the same for identical goods from British Columbia to Newfoundland. There seems to be more competition in the United States than we have in Canada, and this has an effect on our economy.

Senator ISNOR: I don't think that should go on record unchallenged. I think there is competition in every line from east to the west. There are many goods that cost much higher in British Columbia than in other sections of Canada, but to say that there is no competition in the various lines is simply not stating the actual facts.

Senator REID: I will restrict my comments to foods and medicines and leave out clothing. I have bought no clothes or shoes in the United States, but I have bought the other articles there and I will stick to those and stand by what I have said.

Mr. REID: There are 177 million Americans and only 17 million plus Canadians, and the difference in the two markets has a very important effect on the cost structure at all levels of manufacturing and production.

Senator REID: Isn't it a fact that the large market brings down the cost because machinery can operate 12 months a year?

Mr. REID: Yes. This is one of the problems the Canadian manufacturer is constantly faced with, not only in the domestic market but in the external markets, and he does a wonderful job under the circumstances.

Senator WALL: I wonder if I can come back to Mr. Reid's suggestion that Mr. Sheridan explained to us their educational campaign? I wonder if Mr. Sheridan or somebody would append to that the kind of suggestion they might have that would go outside the framework of their membership or the people the Chamber of Commerce have an immediate influence on? I would like to know how we can handle this informational crusade against inflation on a national basis. Who is to do it?

Mr. SHERIDAN: I would like to preface what I have to say about the educational program, something with respect to the discussion which took place just now. Dr. Robert Clark in his very voluminous report pointed out that the Canadian level of per capita economy is 30 per cent below that of the United States. This is a fact to be considered in the development of any overall

program for Canada, and it can be said that our proximity to the United States and our intimate knowledge of the way in which our neighbours live too frequently give us inflated ideas as to what our own approach to Canadian problems should be. I mention that because it has some relevancy to what has just been said with respect to costs in theUnited States and here in Canada. They have a higher standard of living and there is no use in denying it. I would also say that in the program of the Chamber, in its educational field, we are reverting back to the definition which Mr. Edmison read into the record and which was brought forward by the Minister of Finance in his budget speech when he said: "Rising costs and continuing price increases spell inflation."

Now, their are things relating to this definition which we think are happening now and we are trying to say in our educational program, "Please look closely at what you can do with respect to rising costs."

Now, one of the areas where we feel there has been an increase in costs is, as has been pointed out in the brief, in the field of Government spending, large Government spending. There has been an increase in costs because of the taxation result.

There has been an increase in cost because of higher wages, and I am not going to say whether they are justified or not. So our effort is to inform our member Boards and Chambers. We have tried to point out to them, the 750 member Boards and Chambers which are concerned with the civic, commercial, agricultural and industrial progress of the communities in which they operate, that they must never lose sight of the fact that in making demands for something they feel is good for their community they may be making demands upon the public purse which in turn increases costs. So that we suggest to them restraint, as has already been pointed out by the witnesses, restraints on their part as individuals, restraint on the part of labour leaders, restraint in any field which you can consider.

Now, to get this story across, this is what we do. We have a series of radio broadcasts which is prepared by the Chamber each year. This year it happens to be a series of 13 five-minute radio broadcasts which are made available to boards of trade and chambers of commerce for sponsorship by them in their own communities, and more than 100 radio stations are carrying this series of messages in Canada at the present time. Some of these messages relate to the things we have been speaking about.

There is published every month by the Chamber, (and I have the printers proof here of the latest issue,) the News Letter of the Department of Economic Develepoment. I think all honourable senators must have seen this Letter. You have noted that this is a theme that is constantly referred to. This Letter has a circulation of about 30,000 at the present ime.

Canadian Business, which is he official magazine of the Chamber is concerned with this matter of inflation too, and carries in it from time to time articles and editorials along the same lines. We also have the opportunity as members of the Canadian Chamber of Commerce to occupy platforms right across the country and again the same things are spoken about.

In addition to that, and perhaps more effective is that many of the 750 boards of trade and chambers of commerce across the country have formed Public Affairs Committees. There are some 335 Public Affairs Committees established within these boards of trade and chambers of commerce, and these public affairs committees are charged with the responsibility of examining into and looking at national affairs with a view to acquainting themselves, giving themselves a better understanding and appreciation of national problems and doing a public relations job for the point of view we are expressing here today.

That, I think, Mr. Chairman, partly answers the question as to how we can reach the public. I suggest to you that by means of the platform The Canadian Chamber of Commerce does reach the public and we are most grateful for the cooperation of the press, radio and TV which have provided excellent coverages for talks of this nature.

Secondly, there is the radio coverage. One hundred radio stations in all of the ten provinces give us virtually complete coverage across this country of ours.

The News Letter and Canadian Business magazine to which I have referred have a circulation beyond the Chamber membership, and press, radio and TV have been generous in giving prominence to some of the material which is presented in that form.

Senator ISNOR: But that is not new. You have been doing that for the past five or six years at least.

Mr. SHERIDAN: This is not new, now, Senator Isnor. As far as economic education is concerned this is a continuing program. The committee which is responsible for this, it is called the Committee on Economic Development, although it is an Economic Education committee, has directed its efforts this year, in line with the presentation to your committee here today, in giving special consideration to the subject of inflation and its threat.

Senator HIGGINS: On page 6 of your brief there is reference to Mr. George Winder's book, and to his belief that budge deficits, including "below-the-line" expenditures, is the only cause of inflation. What do you mean by "below-the-line expenditures"?

Mr. EDMISON: Those are items that do not appear in financing the ordinary departments of Government. In Canada they would include Crown company operations, the deficit of the Canadian National Railways, e.g. the money spent on C.M.H.A. housing and so on.

Senator HIGGINS: Then you go on and make use of a quotation from Mr. Winder's book as follows: "Once the overall budget is balanced and kept in that condition, inflation will undoubtedly cease." Continuing, you say, "The Chamber does not feel competent to judge whether this drastic assessment of inflationary pressure in relation to the budget deficit is fully applicable to Canada, if, indeed, it is valid for the United Kingdom." And, continuing, you say, "In any event, it believes that the prompt and assured closing of the cash deficit gap would dissipate a great deal of the inflationary psychology that is becoming so prevalent in Canada."

Do you mean that a lot of talk of inflation is caused by the fact that the budget is not balanced?

Mr. EDMISON: Yes, sir.

Senator HIGGINS: And if the budget was balanced, most of the talk would cease?

Mr. EDMISON: A good deal of it would, yes.

Senator ISNOR: In other words, if we were to revert back to the policy carried on by the former administration there would not be the same amount of talk.

The CHAIRMAN: Oh, oh.

Senator LAMBERT: Mr. Chairman, I assume that in the light of Mr. Sheridan's remarks that the brief that was read here this morning will be distributed to their membership.

Senator LEONARD: Perhaps the Chamber would like to distribute some of our proceedings.

Mr. EDMISON: Our feeling is that the emphasis should be clearly in the area of education. We do not believe that in the present, let us say, climate of inflationary psychology, it is necessary or desirable to be alarmists in this type of presentation. Actually the type of enquiry you are holding here we would like to think is educational.

The CHAIRMAN: The committee considers it an educational investigation.

Mr. EDMISON: The type of session you are holding today is, we think, educational, and we are pleased you think so too. You are discussing inflation as a problem, and we think it should be presented to the people as a problem. If you are an alarmist and indulge in a great deal of exhortation and so on, all you might succeed in doing is convincing everybody that inflation is inevitable, and they will go out and do the very things you do not wish them to do. (Refuse to save, over-buy etc.)

Senator LAMBERT: Is not the problem, first, to be as specific as possible in relation to the public demands for certain things? This committee, for at least the past five years, and certainly before inflation became an acute problem, has been stressing the danger of increased public expenditures at all levels of government. Its work in that respect resulted in the introduction in the Auditor General's Report of the new expansive sheet that details expenditures at every level of government.

Now with the Chamber of Commerce focussing attention on this problem, we can very well afford to emphasize the fact, in trying to produce a public psychology that is against the unlimited demands on government for expenditure in all directions. This condition is just as true of municipal and provincial expenditures as it is of federal expenditures, and if we are going to create a state of positive thinking on this subject, I think that is the place to start.

Senator WALL: Mr. Chairman, I wonder if I may comment on the "Summary and Recommendations"? I would presume that the purpose of this educational campaign which we are talking about would be to make everybody aware of, and therefore alert to, certain dangers, and make them prone to self-discipline. For example, I would be almost mischievous and say, how do we discipline through self-control strong ways of capital investment, which has been, in my estimation, a crucial factor during 1955-56. Are there any other controls that can be set up for the national public interest that might temper these waves of capital investment?

Senator PRATT: You mean public funds?

Senator WALL: I am thinking more of private enterprise. In line with that, I am looking at recommendation number one which says:

> The Chamber believes that monetary policy—

And I would like to have the proviso there explained.

> —subject to the exigencies of managing the government's debt, should endeavour to allow increases in the money supply—

There must be a scientific connotation there, which I would like to have explained

> —just sufficient to finance a reasonable rate of long-term annual growth.

Mr. EDMISON: Do you wish me to comment on that?

Senator WALL: I would like a comment on that.

Mr. EDMISON: In respect to your earlier comment about capital expenditures, you are perfectly right in your assumption that the tremendous capital expenditure program particularly in the 1955-57 period, put great strain on our resources in Canada, and certainly added to the inflationary pressures during

that period. As you will recall, capital expenditures in Canada, as a percentage of the gross national product, exceeded 25 per cent. That is an extraordinarily high percentage. We would like to think—and there is reason to believe—that our resources will not be under such a strain in the capital side in the foreseeable future, and therefore, at least that one important factor will not be quite as powerful and disconcerting an influence on the inflationary trend as in the recent past.

In so far as monetary policy is concerned, the monetary authorities are faced with a duel responsibility which at times embarrasses them. I should think they are embarrassed to some extent at the present moment. The monetary authorities are responsible for the maintenance of a relatively stable price level. They are also responsible as the fiscal agents of the Government of Canada for seeing that the Government is in a position to pay its bills.

Now, when you are operating a very large cash deficit, it is quite possible that your objective of looking after your responsibility of maintaining a stable currency, and of seeing that the money supply is not increased unduly, is somewhat in conflict with the fact that you must see to it that the government has sufficient funds available to meet all of its obligations, including the maturities of its funded debt. That dual responsibility of the monetary authorities is certainly an important reason, among others, why we have stressed the importance of the government deficit in looking at this problem. After all, if the government did not have a major cash deficit the monetary authorities would be much freerer and more flexible to concentrate on the question of looking after the money supply in such a manner that, theoretically at least, we might achieve in Canada a more orderly and less inflationary growth.

I don't know that that fully answers your question, but I think the awkward position of the monetary authorities needs to be stressed.

The CHAIRMAN: Are there any other questions? If not, I would like, on behalf of the Finance Committee and other honourable senators present to thank Mr. Edmison and his associates for their very fine presentation to the committee this morning.

—Whereupon the committee adjourned.

Second Session—Twenty-fourth Parliament

1959

THE SENATE OF CANADA

PROCEEDINGS OF THE STANDING COMMITTEE ON FINANCE

on the Threat of Inflation in Canada

No. 3

THURSDAY, JUNE 11, 1959

THE HONOURABLE CLARENCE V. EMERSON,
Chairman

WITNESSES:

Mr. A. Ross Poyntz, President, The Canadian Life Insurance Officers Association, and President of Imperial Life Assurance Co. of Canada.
Mr. E. C. Gill, President, The Canada Life Assurance Co.
Mr. D. E. Kilgour, President, The Great-West Life Assurance Co.
Mr. J. A. Tuck, Q.C., General Counsel, The Canadian Life Insurance Officers Association.
Mr. David Kirk, Secretary-Treasurer, Canadian Federation of Agriculture.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

THE STANDING COMMITTEE ON FINANCE

Chairman: The Honourable Clarence V. Emerson.

The Honourable Senators:

*Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Buchanan
Burchill
Campbell
Choquette
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Croll
Dupuis
Emerson
Euler
Farris
Fraser
Gershaw
Golding
Haig
Hayden
Higgins
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Power
Pratt
Quinn
Reid
Robertson
Roebuck
Savoie
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
Wall
White
Woodrow—50.

**Ex officio* member.

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, TUESDAY, April 28, 1959.

"Pursuant to the Order of the Day, the Senate resumed the postponed debate on the motion of the Honourable Senator Wall, seconded by the Honourable Senator Leonard:

That the Standing Committee on Finance be instructed to study the threat of inflation in Canada;

That the Committee have the authority to send for persons, papers and records, and to report from time to time.

After debate, and—

The question being put on the motion—

The Senate divided and the names being called they were taken down as follows:—

CONTENTS

The Honourable Senators

Baird
Basha
Beaubien
Bois
Boucher
Bradette
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Croll
Dupuis
Euler
Farquhar
Gershaw
Golding
Grant
Hodges
Hugessen
Isnor
Jodoin
Lambert
Lefrançois
Leonard
Macdonald
McGrand
Petten
Pouliot
Pratt
Reid
Robertson
Roebuck
Savoie
Smith (*Kamloops*)
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Westmorland*)
Vaillancourt
Veniot
Wall
Woodrow—40.

NON-CONTENTS

The Honourable Senators

Aseltine
Brunt
Buchanan
Emerson
Gladstone
Haig
Higgins
Horner
MacDonald
Methot
Pearson
Quinn
Sullivan
White—14.

So it was resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, June 11, 1959.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.15 a.m.

Present: The Honourable Senators Emerson (*Chairman*), Aseltine, Beaubien, Bouffard, Euler, Gershaw, Golding, Hayden, Isnor, Lambert, Leonard, Macdonald, McKeen, Power, Reid, Savoie, Stambaugh, Thorvaldson, Turgeon, Vaillancourt, Wall and Woodrow—22.

In attendance: The official reporters of the Senate.

Consideration of the order of reference of April 28, 1959, was resumed.

The following were heard:—

Mr. J. A. Tuck, General Counsel, The Canadian Life Insurance Officers Association.

Mr. A. Ross Poyntz, President, The Canadian Life Insurance Officers Association, and President of Imperial Life Assurance Co. of Canada.

Mr. E. C. Gill, President, The Canada Life Assurance Co.

Mr. D. E. Kilgour, President, The Great-West Life Assurance Co.

At 12.10 p.m. the Committee adjourned.

At 2.00 p.m. the Committee resumed.

Present: The Honourable Senators Emerson (*Chairman*), Bouffard, Gershaw, Golding, Higgins, Isnor, Lambert, Leonard, McKeen, Power, Stambaugh, Turgeon, Vaillancourt, Wall and Woodrow—16.

Mr. David Kirk, Secretary-Treasurer, Canadian Federation of Agriculture, was heard.

Further consideration of the order of reference was postponed.

At 3.00 p.m. the Committee adjourned until Tuesday next, June 16 instant, at 10.15 a.m.

Attest.

John A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, Thursday, June 11, 1959.

EVIDENCE

The Standing Committee on Finance, which was instructed to study the threat of inflation in Canada, met this day at 10.15.

Senator Emerson in the Chair.

The CHAIRMAN: Honourable senators, we will call the meeting to order. We have a quorum. As time will be the essence today I would like to see us try to get out of here between half-past twelve and a quarter to one because we have another carry-over meeting at 2 o'clock this afternoon.

I would like to welcome our distinguished witnesses here this morning, and without any further ado I will call on Mr. J. A. Tuck, Q.C., General Counsel, the Canadian Life Insurance Officers Association, to introduce the first witness.

Mr. TUCK: Mr. Chairman and honourable senators, the Association is represented today by its President, Mr. A. Ross Poyntz, President, Imperial Life Assurance Company of Canada, Toronto, who will make a statement to you on behalf of the Association. Mr. Poyntz will be followed by Mr. E. C. Gill, President, The Canada Life Assurance Company, and Mr. D. E. Kilgour, President, The Great-West Life Assurance Company, who will speak in their independent capacities as presidents of two of our companies.

Mr. P. S. Bower, Vice-President and Treasurer, The Great-West Life Assurance Company, is with Mr. Kilgour. Next Thursday, a week from today, Mr. E. R. Alexander, Vice-President, Finance, Sun Life Insurance Company of Canada, will be here, and with him will be Messrs. Popkin and McCarthy. Mr. Chairman, Mr. Poyntz is ready to make his statement to you.

Mr. POYNTZ: 1. The Canadian Life Insurance Officers Association is a voluntary organization of 87 Canadian, British, United States and Netherlands life insurance companies. These companies transact more than 99% of the life insurance business in Canada.

2. The life insurance companies have been and are greatly concerned about inflation. This can be readily appreciated when it is remembered that life insurance companies deal in dollars. They sell a money obligation, due in the future. Some contracts may extend over fifty years or even longer from the time premium payments start to the time when the company has paid out the final benefit. Erosion of the value of the monetary unit in which the companies' contracts are expressed—an erosion over which they have no control—means a definite loss to the large body of thrifty, self-reliant Canadians who have, through the means of life insurance and annuities, been making provision for the maintenance of their families in the event of premature death or for their own later years.

3. In relation to their income, Canadians own more life insurance than the people of any other country. More than eight million Canadians owned $38.6 billion of life insurance at the end of 1958. This was 157% of 1958 Personal Income. United States citizens were next, their ownership amounting to 139% of their Personal Income.

4. Life insurance protection has grown very significantly during the post-war years—the years when the price level has been subject to a series of inflationary increases and during which the value of the 1946 dollar has been reduced to about 62 cents. In dollar amount, total life insurance in force in Canada has increased four-fold since the end of World War II, but in terms of purchasing power it has increased 2.4 times.

5. The fact that Canadians generally have seen fit to increase the total of their protection under these circumstances does not answer the problem of those earlier policyholders who have contributed their premiums over prior years, and at the maturity of their contracts when entering their retirement years, have found that their savings are, in terms of shelter, food and the other amenities, yielding them less than expected. Inflation is a cruel burden imposed on those least able to bear it and least able to do anything about it.

6. Although the total of insurance in force has increased very significantly, its composition has changed. Along with the growth of group life insurance, there has been a trend away from what we call "permanent insurance", that is where savings and protection are combined, to term insurance which provides protection only. Many factors have contributed to this change in the buying habits of the Canadian public. As a result of inflation, the need for protection has grown at a faster rate than the individual's ability or inclination to save. The continued erosion of the dollar has made saving less attractive, and some persons may have almost ceased saving altogether. Others have been directing their savings into stocks, real estate and other equity investments in the hope of reducing the effect that more inflation would have on the value of what they put aside now.

7. The life insurance companies have invested more than $7 billion in Canada on behalf of their Canadian policyholders. These assets are invested, within the framework of the insurance laws, to finance housing, schools, roads, utilities, manufacturing industries, resource developments, and other capital needs of an expanding country. This is a large pool of capital representing the small but regular savings of millions of individuals. It is not a static fund but a dynamic fund. Additional moneys are added and as old investments are paid off they are reinvested. More than $1 billion is invested or reinvested each year. These moneys represent a large pool of long-term capital available for investment in the national interest in fixed-interest obligations, since they are the backing for contracts expressed in fixed dollars. The interest earned on these funds is, of course, earned for policyholders and increases the benefits they derive from their life insurance savings.

8. Life insurance companies, of course, have had to contend with the effect of inflation on their expenses if doing business and servicing their large and growing number of policyholders. Salaries have had to keep pace with the increase in wage rates generally as the cost of living has advanced. So far, the increase in the average size policy, increasing mechanization and efficiency, favourable mortality and improving earnings from investments have enabled the companies to absorb these increasing costs and in many cases to reduce premiums charged for their policies. Very few businesses have been able to reduce the cost of their products in the post-war period.

9. Possibly, I have said enough to indicate why the life insurance business is concerned about the problem of inflation. You will hear from other life insurance representatives speaking on behalf of their own companies. They will undoubtedly amplify and illustrate many of these rather broad statements, and will make additional points of their own. The life insurance companies stand in a position of trusteeship for the eight million Canadians who have been and are entrusting their savings to the companies. Life insurance men have many times in the past, both through The Canadian Life Insurance Officers Association and in their individual capacities, spoken out against the evils of

inflation. However, the interests of thrifty, self-reliant Canadians have frequently received minor consideration in the framing of government policy.

10. I do not wish to leave you with the impression that the life insurance companies have lost faith in the product they sell. Inflation has not destroyed the value of our product. The miracle of life insurance is that the dollars the policyholder pays in premiums are multiplied many times if he dies prematurely. Inflation cannot destroy the value of this benefit to widows, orphans and other beneficiaries.

11. I hope that your investigation will confirm the life insurance companies' belief that

(*a*) inflation tends to create more problems than it solves;
(*b*) inflation will in the long run create more economic dislocation and will cause more unemployment than it may temporarily cure;
(*c*) inflation provides no incentive to economic efficiency or increased productivity;
(*d*) inflation bears most heavily on those least able to bear it; and
(*e*) inflation, if allowed to continue, will in the end destroy our nation's existing institutions and social order.

Basic to the success of our economic system is a sound currency—a monetary unit whose purchasing power can be depended upon.

12. The life insurance companies in Canada feel so strongly about inflation that this year they are using for their institutional advertising program in the press across the country the theme of "A Sound Dollar Means a Better Life for You" and "The Fight Against Inflation Needs Your Active Support". The text of these advertisements has been carefully worded not to add to the fear of inflation which seems to have been rampant among some sections of the public; on the contrary, the text indicates some factors which are causing inflation and some steps by which it can be avoided or minimized through joint constructive action. Copies of four of these advertisements will be made available to you.

13. The causes of inflation are many and they undoubtedly vary in importance from time to time. We live not in a static economy but in one based on a constantly unfolding series of events. The situation today is the result of the many events of yesterday and several yesterdays. The events of tomorrow will reflect the wisdom with which we govern ourselves today. The life insurance companies feel that increased public awareness of the evils and consequences of inflation will prepare Canadians for the discipline involved in anti-inflationary policies.

14. The main objectives of Canadian policy should be a relatively high level of employment and reasonable stability of the currency. The life companies believe that these two objectives are not incompatible. In fact, the companies believe that if these twin objectives are not given equal weight in the formation of policy and in its implementation, Canada will fall short of the sustained economic growth which could be achieved.

15. Since we are continuously concerned with a flow of events rather than a condition at one point of time, the major problem becomes one of attempting to maintain balance among the different sectors of, and forces within, the economy. Remedial action to cure situations of imbalance should be carefully designed so that they create a minimum of difficulty in other areas, necessitating further remedial action later. Again, since it is a flow of events that concerns us, policy implementation must continually stress emphasis and timing. Moreover, policy must take into account both real and psychological factors. Since individual and business decisions are almost always made in the light of

expectations, it becomes extremely important that we maintain confidence not only by doing the right thing but also by doing it in the right way at the right time.

16. The maintenance of balance cannot be left to government entirely but should be a continuing objective of all segments of the community, all acting in a responsible fashion. However, much of the leadership and control must emanate from the federal government. The prime responsibility falls on government to keep its own house in order thus setting the moral tone for the rest of the community and providing the psychological leadership that will create public confidence that balance will be maintained.

17. Balance will be aided if the federal government takes cognizance of the weight of government expenditures at all levels so that these may be contained within a framework of total taxation that is acceptable and bearable. We cannot do at the same time all the desirable things we jointly would wish to do. Governments, within the limits of a bearable level of taxation, must continually make wise choices among the competing demands of municipal services, highways, public works of all kinds, education, defence establishment and welfare expenditures.

18. Most of the larger welfare programs have a built-in growth potential as population increases and as the level of services inevitably expands. Extreme care should be exercised to ascertain that the growth potential is within our foreseeable ability to pay. Too often, it would seem that the growth in expenditures under these programs is not well assessed. The result is a large increase in total government requirements and in the proportion of expenditures that are uncontrollable.

19. Government revenue and expenditures should, at least over a period achieve a balance, but in any year, a deficit or a surplus may be necessary to either stimulate or contain the flow of events. When deficits are in order, every effort should be made to maintain confidence and to borrow from non-bank investors so that it will not be necessary to increase the money supply to accommodate the financial requirements of the federal Government. The life insurance companies commend the federal government for its plan to reduce its deficit in the current fiscal year. Confident that the present trend toward recovery will continue, the companies feel strongly that the budget for the fiscal year 1960-61 should be at least in balance and, preferably, should provide a surplus.

20. When excesses appear in various sectors of the economy and remedial action is taken, time should be allowed for such action to operate to restore balance. The level of interest rates is an example. Savings in the long run must be matched to the demands of capital investment. When demand exceeds supply, interest rates are high and, through being high, set in operation a chain of events which tends to reduce demand, increase savings and thus restore balance.

21. Increases in productivity within the economy result from the application of labour and new plant and machinery to the process of production. Wage and salary increases in recent years have tended to take up all the gains in productivity, leaving little, if any, to be spread among consumers in the form of lower prices. Groups in strong bargaining positions tend to obtain special concessions. This leads to imbalance and necessitates subsequent concessions in other areas.

22. In this examination into inflation, Canada's need for export markets must be borne constantly in mind. Inflation increases costs and selling prices. If inflation raises our price levels to the point that our exports cannot compete in foreign markets, we face the prospect of unemployment in vital industries.

Similarly, imports will interfere with our own production for the domestic market. Canadians cannot control inflation which may be forced upon them from outside, but we can and should refrain from promoting it by our own actions.

The CHAIRMAN: That is a very excellent brief, Mr. Poyntz, and we thank you for it. Would you like to be questioned now or would you rather wait until the other witnesses have made their presentations?

Mr. POYNTZ: Perhaps some of the questions that the senators may now have in mind will be answered by the other speakers.

Senator ISNOR: Mr. Chairman, I have one question that I think could be answered now by Mr. Poyntz; it is one that is not likely to be cleared up by the other witnesses. I refer to lines 3 and 4 of paragraph 15 of your brief, Mr. Poyntz. Can you explain what you have in mind there?

Mr. POYNTZ: That reads: "Since we are continuously concerned with a flow of events rather than a condition at one point of time, the major problem becomes one of attempting to maintain balance among the different sectors of, and forces within, the economy."

That, Mr. Chairman, involves the interplay of forces in the Canadian economy; and it would apply to the capital market and to wage scales across Canada that vary according to the ability of a group to bargain, and result in dislocation and imbalance of one group in comparison with other groups. For instance, a rise in wages in one industry in an area must later be offset or counteracted, or brought into balance, by similar concessions in other industries. Heavy capital requirements, that is the borrowing by governments to finance deficits, create an imbalance in the sense that other borrowers are put at a disadvantage in making demands on the same pool of savings.

I think that is the kind of thing we mean by that statement. There is no isolated influence in the Canadian economy.

Senator ISNOR: Perhaps, Mr. Chairman, we can pick the point up later.

Senator REID: I wonder if the witness would care to elaborate on the statement made on page 7: "It becomes extremely important that we maintain confidence not only by doing the right thing but also by doing it in the right way at the right time." What have you in mind when you suggest that?

Mr. POYNTZ: It seems that the question of inflation at the present time assumes great importance by reason of the fear of what may happen rather than the physical facts of inflation existing right at the present time. It is a complete lack of confidence in future price levels and in the value of fixed interest securities, as another example. We think it is very important that the psychological factors be weighed in determining any particular course of action, not only physical and economic factors.

Senator BOUFFARD: Up until about three years ago I think we can say that Canadians had a great deal of confidence in our country, not only Canadians but also outsiders who invested heavily in Canada. The Government's budget was always in good balance. The rates of interest were low and there was little fear from inflation at that time. I don't think it was as psychological as much as it is today. What in your opinion was the cause of the inflation that progressed between 1946 and, let us say, 1956, when the Government was always in good balance? We found we had a surplus and low interest rates and there were tremendous investments coming in from outside. The country was growing in population and the economy seemed good. What, in your opinion, was the cause of inflation at that time, for it did occur at that time?

Mr. POYNTZ: I should think, sir, there were a great many causes. The principal cause, is that what you are asking?

Senator Bouffard: Yes. I know it is very hard to point out the cause of inflation but I wonder if we had any specific reasons for inflation at that time when the economy was so good, the budget was in good balance, the interest rates were low and it seemed that the economy of the country was going very well, although at that time we also had a little inflation.

Senator Leonard: Senator Bouffard's question is directed from the year 1946, the immediate year after the war, on through the post-war period up until 1956.

Senator Bouffard: Yes.

Mr. Poyntz: If any of my colleagues would like to give their idea of what is the principal cause here I would be glad to hear them answer that question. I think I have one or two comments I could make.

Mr. Kilgour: The views that I recognize as the most important pertaining to that question are these. Immediately after the war we had a tremendous accumulation of savings that had been built up during the war. Our financial institutions were loaded with Government bonds that had been bought at very low interest rates. Then we had tremendous pressure for goods. People all across the country started buying things they had not been able to buy during the war. There was tremendous pressure on the capital market for new factories, new houses and new everything. To a very great extent the savings made during the war were used up during these succeeding years, and we had the instance of too many dollars chasing too few goods. In the financial institutions there was a great pressure to sell their federal government bonds and put the money into municipal and industrial bonds, and mortgages, and so on. So we had the accumulated savings of the war being used in the expansion that took place in Canada which resulted in a tremendous creation of new goods. That process continued and ultimately produced the sort of classic inflation of too many dollars chasing too few goods. That took place right across the country. Now we have come to the stage where these savings have largely been used up and we find a situation where there are too many demands on the savings that are available. It seems to me that this is a simple portrayal of what is taking place today. We have more people wanting money than there is money available.

Senator Wall: You mean it was really a demand-pull type of inflation. I think that is what they call it. There is a tremendous demand for goods in the early part.

Mr. Kilgour: And a tremendous demand for labour and facilities. That is why people could increase prices, because there was almost an excess in demand for many products which removed the normal price resistance. That is normally what would have taken place during the war had it not been for rigid price control. At that time money was available and demand was high and it created a churning example of what happens when you have lots of money and great demand.

Senator Wall: If I might just follow along Senator Bouffard's question, would you say that we are facing a slightly different flavour of inflation at the present time? Would you say that it is a combination of still a demand—because there is an excessive demand—plus something else that is beginning to bother us?

Mr. Kilgour: I question if today we have an excessive demand in many fields. In fact, we have an excessive production in many fields.

Senator Thorvaldson: I think Mr. Kilgour will be presenting a brief himself and perhaps he would rather answer questions at that time.

The Chairman: Yes. Thank you for your very excellent brief, Mr. Poyntz.

Mr. POYNTZ: Thank you, Mr. Chairman.

The CHAIRMAN: I will now call on Mr. E. C. Gill, President of The Canada Life Assurance Company.

Mr. GILL: Mr. Chairman and honourable senators, with your consent, and with the consent of the committee, I think it would save time if we did not read through the brief in full. Mr. Poyntz, in arranging the program, asked me to concentrate on two important items. One is the creeping inflation theory and the other is to make some comments on the stock market. If you agree, sir, we could start right at the top of page 3 and read two short paragraphs.

(For complete brief see Appendix "A" to proceedings.)

Gentlemen, nothing could be more dangerous than the assumption that a little bit of inflation each year is good for the economy, in other words a creeping inflation. No inflation will creep for long or forever, it will soon gallop. Just like a little pregnancy you can't stop it from growing.

Now one of the favourable things about this whole subject, gentlemen, is that millions of people believe and know that this problem of inflation is the most serious problem facing the free world other than the peace of the world. There is nothing to compare with it.

In the United States there are some very worth while organizations speaking up. There is a committee called the Committee for Economic Development, a committee of businessmen, a committee not only of financial people, trust people, insurance people, bankers, and so on, who see this problem day to day, but a committee of outstanding industrialists of the country. It is a committee that is composed of these men and they do their own work—they do not employ others to write the articles and so on. I just want to quote a few paragraphs from one that came out a few months ago. This, Mr. Chairman, is one of the most concise statements on the subject that I have read, and it will show you the calibre of the man who wrote it. The head man was the chairman of Sears Roebuck, and in one of his concluding paragraphs he said: "We do not accept the idea that inflation need be tolerated, for while it may creep for awhile there is a danger that soon it will gallop out in the open. We know too that even at a creep it is intolerable because it erodes the value of long term fixed money obligations and crucifies the weaker groups in our society. Nor is a rising price level essential to real growth and sustained productive employment. In fact by distorting the normal incentives for efficiency in business and increased productivity of labour it may well endanger the sustainability of growth. There is danger of long term inflation in this country, but it is not inevitable. The nation can have both stable prices and high employment, if it is willing to adopt the policies required to make them consistent. We do not have to sacrifice high production to avoid inflation. The only thing we need to give up is an illusion, the illusion that we can get more out of the economy than we put into it, that we can consume more than we can produce. The responsibility for preventing inflation is the joint responsibility of Government, business, labour, and agriculture. The Government's chief responsibility is through the exercise of its monetary and fiscal policies to keep demand from rising faster than the nation's ability to produce. To clarify the responsibility of Government in this regard the Employment Act of 1946, which is an Act of Congress, should be amended to include stable prices as a specific objective of policy along with ones that are there now, maximum production, employment, and purchasing power. In other words, it puts the stability of currency right on the top level of Government objectives to maintain maximum production employment, purchasing power and stability of the currency . . ."

And, as I understand it,—I am not completely up to date on this—there is a bill in Congress now that would put that in the Employment Act.

"By whatever method the villain of inflation is detected, there is no question that getting rid of him is a matter of the greatest national urgency, for the people of the United States are properly dedicated to a clear-cut purpose of steadily rising standard of living for everyone. We of the C.E.D.'s research and policy committee subscribe to this goal with no reservation, except that it be achieved in freedom. In other words, not with a lot of controls over everything, as there would be in war time. It is precisely because we feel its importance so strongly that we would spare no proven measure to free our economy from the cruelties of inflation, for we know only too well that, in the political and economic climate of the contemporary world, failure to achieve the goal of stable growth could easily mean the end of our way of life and who would pay a price so high for the dubious pleasure of inflation, even of the creepiest kind."

Now, sir, if I may, I will leave the text for a moment. I thank you for allowing me to insert that. Anything that is done in the United States has no compulsory impact on Canada, but I think those two cases are parallel, and the arguments that the C.E.D. brought out there are equally applicable to Canada.

To deal with this matter of creeping inflation we do see the argument that there can be a little bit of inflation from year to year—2 per cent or something like that—and strong voices have been known to advocate that, but, gentlemen, in our opinion, it is just as impossible to do that as it would be to stop a machine once it is running down hill out of gear. If you try to defend the stability of the currency at a loss of 2 per cent per annum, then the pressure builds up under that 2 per cent, and then it goes to 4 per cent, and then to 8 per cent, compounding. The defence has to be on the basis of stability, and not admission of defeat by using some other figure. The important thing in our belief is that full employment in the long run and stability of the currency are compatible. They can run together. Indeed, they have to run together because in order to have full employment there has to be economic growth, and in order to bring about economic growth there has to be savings by the people—real savings—to complete the industrial plant, the seaways and the highways, *et cetera*, and the real savings of the people are not going to come forward for many years if they get the fixed and firm idea that the currency is depreciating forever—in other words, the idea spreads "Let us spend our money and not save it".

The only other portion allotted to me is at page 7, at the beginning of the first indented paragraph, and it deals with the fact that there seems to be three important psychological influences causing inflation today. I am going to deal with one now, and the others, which are Federal Government deficits and labour's demand for wage increases beyond the increase in productivity, will come later. The one I am assigned is the inflationary-minded stock market, where there is an important point to be made.

The stock market—and we will judge it by the Dow Jones Industrial averages, the best test of stock values on this continent—of course has hit a high so many times that you cannot keep track of it. It is now over 600. Indeed, it is between 620 and 630, and it was at 200 about six or eight years ago. That shows you how far it has run up over a period of six or eight years, giving the people the idea that it is going to run up forever. It has passed all the bench marks that were ever created with regard to earnings or dividends. The real problem here is the inadequate supply of stocks and we really have a classical inflation here. In other words, too many dollars chasing too few goods; that is, to few stocks. Investment trusts, insurance companies, mutual funds, private individuals, pension funds, et cetera, et cetera are all trying to buy into the existing supply. The supply is not going up fast enough. It is going up a little bit, but the great American industrial,

utility and fiancial companies listed on the New York Stock Exchange are not issuing new stock at the rate at which the buyers are increasing—and neither, sir, are our Canadian companies. I only wish that everyone, or nearly everyone, of those great companies would issue a lot of additional common stock and that would take the steam out of the market. Then values would be related to earnings and dividends. We have had an example of that here in Canada. Our market is just as high or higher than the Wall Street market based on earnings and dividends. One of our large industrial companies, after much consideration between bonds, preferred stocks, and common stocks, issued a very large block of additional common stock. That had the effect of flattening out the market, and now you can buy and sell that stock freely.

Sir, it was the equivalent of a billion dollar issue on the American market. It was $75 million in the Canadian market, which was a large issue.

Furthermore, this means that pepole who purchase this stock have a far better chance of getting an increase in market value over the years.

In regard to buying common stocks, I believe inherently in them. I feel that people should have confidence in the common stocks of the great United States and Canadian companies. They will undoubtedly have a growth factor over the years in the dynamic economy of this North American continent, but they should be bought on this basis—gain in earnings, gain in dividends, and asset values, and so on.

To suggest that you have to assume inflation in any way directly or indirectly to justify the purchase is, in my belief, an argument from weakness.

That is all I propose to read at this point, Mr. Chairman. Stocks will undoubtedly have a growth factor over the years in the dynamic economy of this country, based on earnings, asset values and so on. But to suggest that one must assume in any way directly or indirectly that inflation justifies the purchase of equities is, in my opinion, a wrong premise. Too often inflation is used a reason for the purchase of stocks. The example of the stock market going to a new high, as has so frequently happened, has put in the minds of hundreds of thousands of people the belief that inflation is inevitable, and is going up and up in an endless line.

The best thing that could happen would be to have a few ups and downs, at this high plateau of averages in the United States of 630, as we have today, with an equivalent high in Canada.

The CHAIRMAN: Do you not think, Mr. Gill, since you mention the averages of higher than 600, that that has to be viewed in the light of the value of the shrinking dollar; the averages would actually be around 300?

Mr. GILL: I agree with you, Mr. Chairman, the averages are expressed in dollars. The point I was trying to make is not so much that the actual rise in the stock market is one of the fundamental causes of inflation, but rather it is, if you like, an example of what is going on from day to day and week to week; it attracts the attention of so many people, and they conclude that inflation is here to stay. Mr. Poyntz and Mr. Kilgour are going to discuss that matter more fully.

Senator LEONARD: Mr. Chairman, I don't know whether Mr. Gill feels he is rushed for time.

The CHAIRMAN: Certainly he should not feel that he is crowded for time.

Senator LEONARD: Is he or Mr. Kilgour going to deal with the second of the three situations mentioned in this brief?

Mr. GILL: Yes.

Senator LEONARD: Are you going ahead with that now?

Mr. GILL: I think Mr. Kilgour and Mr. Poyntz between them will deal with that. You are referring to the impact of federal Government deficit?

Senator LEONARD: And the third point, as to labour demands, are you going to deal with that?

Mr. GILL: I think that was dealt with by Mr. Poyntz.

Mr. POYNTZ: Mr. Chairman, I think when Mr. Kilgour has finished there may be some areas still to be covered by some of our colleagues who will appear later and speak on different facets of the problem.

Senator REID: Mr. Chairman, may we gather that this entire brief will be read into the record?

The CHAIRMAN: Yes, it will be read into the record.

Senator MACDONALD: By other witnesses?

The CHAIRMAN: Yes.

Senator WOODROW: Do I understand Mr. Gill to suggest that companies should issue additional stock, and thus reduce the value of present stocks and equities?

Mr. GILL: No.

Senator WOODROW: Would that not be the result of your suggestion?

Mr. GILL: No. I thank the honorable senator for raising that point, because my statement does require some clarification.

I know it is impossible to have it happen quickly, but if these large Canadian companies were able to issue new stock for cash, and not dilute in any way the existing supply of stock, I believe it would be helpful. I am urging that they issue some stock to keep the balance, if you like, between the indebtedness and the equity. I am clearly aware that the issuance of new stock costs more to earn the dividends than the issuance of new bonds, because bond interest ranks for deduction from earnings before income taxes are paid. I quote for example the case of the chartered banks of Canada: as their assets have grown in recent years they have issued more stock. I think that is an illustration of the point I am making.

Senator MCKEEN: How can you issue more stock and not dilute the present stock?

Mr. GILL: Mr. Chairman, I might explain it this way: suppose a certain company had to bring about an expansion of $50 million in its plant, and it felt that the earnings that could be developed from that additional $50 million of plant would more than pay for the dividends on the extra stock issued, then there would be no dilution.

Senator MCKEEN: But the problem here is inflation, and I understand if you spend that $50 million for a new plant, wages and material, that is a contributing factor to inflation.

Mr. GILL: Yes, Mr. Chairman. It is certainly true we need capital expansion in this country, but we can have too much of it. At the present time the figures indicate that Canada is spending more than $8 billion a year on capital expansion out of a gross national production of slightly more than $30 billion a year. That is a phenomenal rate of expansion—some 27 per cent. In the more mature economy across the border the rate has been lower; of course it is older and is a more completely developed country, and shows an expansion of only 12 or 13 per cent. If Canada were able to show 20 or 22 per cent expansion, it would still be a phenomenal rate of growth, and would amount to less than $7 billion instead of $8 billion; the country would still be growing at a fast rate, but the extra pressure which induces inflation might be removed. It would result in less borrowing being done across the border, and therefore the premium on the Canadian dollar might be less.

Senator BOUFFARD: Would it not be better if we expanded with our own savings, rather than import money into the country for expansion purposes?

Mr. GILL: In my opinion we are importing too much.

Senator LEONARD: The fact is we are only able to keep our capital investment at the figure of $7 billion or $8 billion by the import of capital in the past few years.

Mr. GILL: Yes.

Senator LEONARD: Our own savings would not amount to that much investment.

Mr. GILL: No.

Senator ISNOR: Mr. Gill, I am not sure that I understood your correctly or not. As I interpret your comment, you were advocating greater savings, and in the same breath you mention, notwithstanding, that almost every section of Canada is advocating less expenditures by the Government. You state you believe in savings through such projects as the St. Lawrence Seaway development, and similar projects. Was I right in my interpretation?

Mr. GILL: Yes. I believe in capital development both through private industry and at all levels of government; but it has just so happened that during the past two or three years the amount we are doing in any given 12-month period is an extremely heavy proportion in relation to our gross national product. I am not recommending that it should go a way down, so as to bring about poor conditions, but I am suggesting that when we are at a high of $8 billion for expansion it might be that some of our problem would be solved if there was less in the aggregate. As I say, I am not suggesting that it should be cut off. I think some programs are ending by themselves, such as the St. Lawrence Seaway.

Senator ISNOR: Then as a general principle you have a different point of view than that expressed by Mr. Poyntz in his brief, namely that if the Government, if they follow your suggestion in continued expansion, will not bring about a balancing of their budget nor a decrease in our debt.

Mr. GILL: Mr. Chairman and honourable senators, I say no to that proposition. I advocate just as strongly as Mr. Poyntz did the balancing of the federal budget. I believe most sincerely that by the 1960's we are going to be well into a period of prosperity, and the federal budget of this country, which will commence the first of April, 1960, should be in balance at that time, for unless we can achieve a balance or a surplus at that time, as Mr. Poyntz has said, when can we ever do so?

Senator ISNOR: Yes, thank you.

Senator THORVALDSON: You feel that the federal budget will likely be balanced to 1960 under present tax rates without the necessity of increasing taxes?

Mr. GILL: I associate myself with Mr. Poyntz in that. I think there is such a rebound in earnings that there is going to be a very considerable gain in tax revenues because earnings in 1959 are going to be so much higher than earnings for 1958.

Senator MACDONALD: Provided there are not greatly increased expenditures.

Mr. GILL: Yes, sir.

Senator EULER: Would that not also mean higher profits, higher dividends and higher stock prices?

Mr. GILL: The stock market has got to such a high point it is really a revaluation of earnings and dividends. You now see stocks yielding 2 per cent or less than that on dividends. What we should get are higher dividends to support these present values. Whether that will happen I have no idea.

Senator MACDONALD: Is that situation of no income return from stocks due to some extent to fear of inflation?

Mr. GILL: Yes.

Senator MACDONALD: People are buying stocks with a low yield.

Mr. GILL: I am in complete agreement with you on that, sir. I think too many people are buying stocks on the theory that inflation is coming, whereas they should be buying stock on the basis of earnings and dividends. If they did it would be found that the market is high enough at the moment. That is my plea; for the good of the country a fairly level stock market with a few ups and downs in it would be the best thing we could have. However, I am sure that not everyone in the country would agree with me on that.

The CHAIRMAN: Honourable senators, if there are no more questions I will call on Mr. D. E. Kilgour, President of the Great-West Life Assurance Company, to address the meeting.

Mr. KILGOUR: Mr. Chairman and honourable senators, I will follow my text, if I may, because in that way I will not be tempted to digress.

Although appearing before you as a member of an industry group, and although I align myself completely with the statement by our chief spokesman, Mr. A. R. Poyntz, the views I will express are my own, and may or may not be shared by others.

I am assuming that not only may this Committee ask for informatory data, but that also you may take specific suggestions under consideration and later express a view on their possible merit.

In preparing for this submission, I concluded I should not seek to add to the data or make a restatement of the inflationary damage which has taken place since the war. Rather, I propose to make a concrete suggestion for your consideration.

In the last analysis, this present enquiry is a reflection of our joint concern about the erosion in the purchasing power of the currency which has taken place. In short, we seem to find that our national economy has an apparent inbred bias towards inflation.

It may be that as a result of this investigation you will be able correctly to apportion in degree the primary causes, how much to foreign influences, how much to domestic, and within the latter, what agents or areas within our own economy have been most contributory.

Whether you can or cannot, I think you will find that whoever the agent, or whatever the area, price distortions reflect the basic human drive for each to solve his own problems or improve his own lot.

Only recently, I suspect, has it become more widely recognized by the rank and file in both public and private life that national prosperity, like freedom, is indivisible. One sector cannot profit for long if it does so at the expense of the rest of the country.

However, it seems to me, looking backward, that the process of change, which is implicit in growth, has been studded and charged by strong abnormal action in many spheres.

Then, as time goes by, other areas try to move ahead and regain their former relative positions, and we all find ourselves in a national cut-throat process which seems to feed the fires of inflation.

Looking to the future, I cannot see any way to stop this process as long as we continue to rely only on the factors or forces which have been at work in the past.

I therefore feel most strongly that some new catalyst, or balance wheel, has to be added which would be impartial, unbiased, and intelligent.

I believe it is possible to introduce some such influence within the present framework of our democratic society which, if it did nothing else, would represent the interests of the consumer who is the one who finally pays the bill. But its basic purpose would be to counsel the selection of a course among alternative avenues which would serve best to promote long-term economic growth.

I believe there are presently some built-in forces which are continually applying great pressures for higher price levels. At the danger of over-simplification, I would nominate three as being of great importance:

1. The tremendous pressure on governments to spend money, and which they find extremely difficult to resist.
2. The extremely pervasive impact of price rises in some few key industries on our national economy.
3. The very great power concentrated in a few unions, the result of which is not always consistent with the national interest.

The pressure on governments to spend money has been greatly accelerated in recent years, and it may not be sufficiently appreciated that since the elimination of the gold standard in 1933 and its automatic system of checks and balances, currently our only defense against dilution of the currency is the exercise of judgment by monetary and fiscal authorities.

I do not argue for a return of monetary rigidity, but its removal has done away with a certain automatic discipline and has made it possible for inflation to proceed further and faster than it could under the system of more or less rigid restraints. This may serve to point up the fact that it is the exercise of judgment by the monetary authority, limited by its capacity to carry out that judgment, which has become the principal safeguard against inflationary forces.

Similarly, in the area of fiscal policy, the quality of judgment is paramount,—judgment as to the type and magnitude of fiscal action and as to timing. There may be tremendous pressures on the government of the day to extend welfare measures, introduce agricultural programmes, or determine acceptable and prudent levels of defense expenditures. All of these require the most balanced and skilful judgment the country can provide in shaping public policies to ensure sound courses consistent with economic growth, and within a framework of taxation that is both bearable and acceptable.

And when I speak of the pressure on governments I remind you again the policeman was removed from the picture when we went off the gold standard. There is no ceiling on Government expenditures which can be determined other than by judgment.

One cannot help but be impressed and concerned by the fact that it is quite possible for governmental action and spending by agencies to proceed along lines that may be directly opposite to that which the monetary authority is pursuing. One can, perhaps, illustrate this in part by recalling the extremely generous credit terms made available by the U.S. Federal Housing Administration four or five years ago when the central bank there was trying its best to curb inflationary forces. I thought it might be more tactful to use an American illustration rather than a Canadian one.

But there are important limits to the effectiveness of monetary and fiscal powers against inflation. Just last March, the economic adviser to the Federal Reserve observed in an open letter to the Washington *Post* that "There are unstablizing forces in pricing actions of the private economy on the part of both management and labour that cannot be effectively controlled or corrected by governmental actions in the area of fiscal and monetary policy."

In effect, he admits our two policemen, fiscal and monetary policies, are completely ineffective in controlling some areas of the economy.

It is to these that I referred as my second and third great pressures for higher price levels, and which we so often see in the structure of those prices and wages which are controlled by rigid administrative action.

In the private sector, the force of some very few industrial decisions has an impact that goes across the country like a tidal wave. One has only to observe the current steel negotiations in the United States to appreciate that the wisdom, or otherwise, of their final decision is to all intents and purposes simply imposed upon the rest of the economy.

There are similar instances in Canada, of which, perhaps, one of the most dramatic is the ever-recurring railroad wage negotiations which often are followed by rate increases. These are influences in the non-governmental area which can nullify what might otherwise have been the best judgment of thousands of other businesses.

Thirdly, in the union sphere, it seems to me self-evident that the tests of strength which take place between international unions and great industries, and which may have crippling effects on our country, rather axiomatically also have deep implications on price stability or continued inflation.

Thus, in summary of the three areas I mentioned earlier, the more one ponders, the more one realizes that the nation, having presumably outgrown the old system of automatic checks and balances, is now relying on the hope that future judgments in both the public and private sectors will be prudent, intelligent, and co-ordinated to serve the best long-term interests of Canada —and that is quite a hope.

Such judgments are our basic need. Major errors will require major offsets—if they can be offset. The organized pressures seem all on the upward side. Yet, within present circumstances, what may we expect? We know of mistakes in judgment in the past, not only those of our own, but also those committed by other nations, and yet it seems to me that we are singularly lacking in any organized defense against such mistakes being repeated—and on possibly a still larger scale.

In our present stage of social, governmental, and business development, judgments of national concern are formed and carried into effect by independent groups. These may be brought about by the central bank, by the government, or the managements of large industries, or by the leaders of large labour groups.

Once any of these courses is chosen, and they are arrived at with a high degree of independence, there may be far-reaching impacts on the total economy. True co-ordination, or even a forum where impartial, non-partisan, non-regional appraisal and study could lead to sound judgment, as to the course most consistent with the nation's best long-term interests, simply does not exist.

Only under the stress of war have we witnessed all parts of our economic system working together to one end. If, in peacetime, policies could, with freedom, be weighed in the balance of the nation's long-term interest, an important gap might be filled.

I have no doubt that the problems of tomorrow will be greater than those of yesterday. The formation of trading blocs, the increasing Communist trade offensive, the development and measured utilization of resources, the expanded role of governments, the salvation and preservation of the purchasing power of our own currency;—all these, and many more, will require the continuing best judgments of which our country is capable if we are to achieve stable economic growth with a relatively high level of employment and with reasonable currency stability.

I suggest that a new vehicle, or instrument, might perform a profoundly valuable service if it could be set up in a thoughtful and constructive manner, and with the proper backing. I suggest the solution lies in extending help to

the decision-makers. Such help should be available on request and would be a deliberate, impartial and unbiased consensus of the best thought obtainable, aimed at the objective of stable economic growth.

This function might be served by creating, by statute, a National Economic Board. It should be well-selected, well-financed, and given proper stature in our national fabric. Its purpose would be to give the best-qualified, balanced, impartial, and studied opinion on the merits of alternative courses of action being faced by major decision-makers in fields of national import.

The Board would have the authority to engage expert assistance on particular problems, and to call for the most qualified opinions on all sides of the questions under review. Such a Board would be required to report regularly to the government, to the central bank, and to the public. Its existence and studied thoughtful views could greatly strengthen the assurance with which the major decision-makers could proceed along courses truly believed to be sound, and would instil much public confidence.

There is, perhaps, some precedent in the Council of Economic Advisers to the President of the United States, and the Council on Prices, Productivity and Incomes set up in the United Kingdom. I would like to think it would have more independence that the former, and a much wider field than the latter.

In making this suggestion, I am impressed by the point Mr. Poyntz made in his presentation,—"We are continuously concerned with a flow of events rather than a condition at one point of time."

Because this is true I feel that any such board will have to be a continuing thing. There may be one problem today and totally different ones tomorrow or the day after.

Professor Knox, in his testimony, said:

> We need more thorough public presentations of the points of view of the different interests involved, industry, labour, the farmers, financial institutions and the various levels of government, and we need more appraisals of these positions by persons expert in such matters.

It seems to me that both these views support the suggestion that there must be a continuing new force at work in this field charged with appraising the long-term significance of private and public policies in relation to the nation's best interests.

I submit that we are all deeply concerned with the postwar record. The magnitude of the problem is such that to seek a vehicle whereby some of the best minds in our country could be permanently harnessed to address themselves to the triple objectives of a relatively high level of employment, reasonable price stability, and a sustainable level of economic growth may have the merit of being both positive and constructive. It might do much to alleviate the frustration that is so widely spread amongst people in many walks of life who are deeply disturbed both by the history and prospects of inflation.

The CHAIRMAN: Thank you very much, Mr. Kilgour. Would you mind sitting there for a moment. There may be a few questions from the honourable senators.

Senator ISNOR: On page 9 in the second paragraph you recommend the setting up of a National Economic Board. You are familiar with the functions and personnel of the Treasury Board at the present time?

Mr. KILGOUR: Yes, sir—broadly, I should say.

Senator ISNOR: How would your suggested board differ from the Treasury Board—in what respect?

Mr. **Kilgour**: Mr. Chairman, there may be many people who are more capable of suggesting how such a board should be set up than I. I would visualize it as a group assembled on a national basis but representing different interests. In other words, I would contemplate a board of, perhaps, 25 people. There may be one member from each province, and there would have to be representation from agriculture, labour, industry and finance. They would not be full time, but would carry on their own occupations at the same time.

There might have to be an executive committee; perhaps you would have a chairman and an executive committee of three or four who might be full time. They would assemble as frequently as required, to address themselves to particular problems on which their advice might be sought, or when the national interest makes it perfectly clear that they should address themselves to particular issues. They could state for example, whether in their opinion our resources at any given moment can absorb the capital expansion contemplated by Government and industry. They would be in a position to say that the proposed undertakings contemplated for the year was greater than we can absorb. My opinion is that in such an instance there would have to be counselling of both Government and industry, that in the opinion of the board we were tackling more than the economy would stand. As I have said, the function of the board would be that of counselling, and it would be a voice that would carry some weight with both Government and industry.

Mr. Chairman, I visualize a board composed of people who are outstandingly able in their spheres and judicial in their views, who could bring their combined judgment to bear in a public forum, where people could be free to express various points of view.

Senator **Isnor**: How could that board possibly bring about the result you have in mind without power or authority.

Senator **Euler**: I suppose, by making recommendations.

Senator **Leonard**: Perhaps they could affect public opinion.

Mr. **Kilgour**: I would think they could affect public opinion very strongly, after hearing expert opinion on matters under review. If, for example, 25 intelligent men came to the conclusion that we were tackling more than our economy could stand, and they expressed it in clear-cut terms, it would almost certainly have its effect.

Senator **Lambert**: My colleague Senator Euler mentioned as a possible ideal, the Treasury Board. I think the matter might better be handled by such as the Economic Advisory Committee of the cabinet which functioned so effectively during the war years.

I do not know whether that committee is still in existence. It was headed by a leader who is now president of one of our chief universities, an economist and a very able and wise man he is.

I think in the final analysis the elected representatives of the people and the Government of the country must exercise the judgment which you have so emphatically outlined. Therefore this national board which you suggest—and I regard it as an excellent suggestion—should be an advisory board to the Government in power. That gets us down to the basis of our democratic system, and we must not get away from it. We would be confronted with political considerations in the broader sense of the word in the final analysis, but I don't think that thought should in any way interfere with the desirability of giving the best possible advice obtainable to both Government and industry.

Senator McKEEN: I understand your suggestion was that advice be given to all groups, management, labour, municipal and other governments; that that advice be given with respect to developments that are going forward, and that some publicity be given to the judgment expressed by the board. The suggestion just made by Senator Lambert of an advisory committee to the cabinet, might be a good thing, but I take it Mr. Kilgour's suggestion went far beyond that. I do not think you were trying to interfere with the cabinet in its decisions?

Mr. KILGOUR: Mr. Chairman, I was thinking in a much broader sense. As I pointed out, it is not merely governmental action, it is action by industry and by labour, to mention only two. For instance, I think such an issue as the negotiations with respect to wages in the United States steel industry today is a good example. If an impartial voice could express an opinion—and I don't suggest that I have one—and it were to express its carefully conceived and sound views to industry and labour, that expression of opinion before the issue reaches a crucial state in our economic affairs, would be worth while.

Senator POWER: May I ask a question? I pass over the suggestion that an economic council such as this would be utterly irresponsible to the people on questions of defence expenditure, or as to whether we are to have the Bomarc or the Arrow, or on our welfare generally. But I put this question to you with regard to industry itself: you are aware, I presume, that the principal representatives of business, that is the Boards of Trade, are the people who bring most pressure to bear on politicians to have expenditures made? Now let me put to you the point with respect to the case you mention that of the United States Steel Company. Let us assume we had a similar labour dispute with regard to the Steel Company of Canada: do you think an economic council of 25 people, selected from across Canada, would have any influence on the negotiations taking place between the Steel Company of Canada and the labour unions? I ask you, do you sincerely think they would have any influence? In the circumstances, labour wants an increase in wages, and management wants to preserve or increase its dividends. Do 25 people just come along and say, "Now, boys, be good"?

Mr. KILGOUR: I think they could give some direction to both groups, by way of counselling; I don't mean in any sense control. They could give sound advice.

Senator POWER: Sound advice, true, but would anybody pay attention to it?

Mr. KILGOUR: I think the public would.

Senator EULER: They might.

Mr. KILGOUR: I don't think business leaders or union leaders are beyond taking advice, Mr. Chairman.

Senator THORVALDSON: Mr. Kilgour, you have given two pretty solid precedents for the course you have suggested, namely, the Council of Economic Advisors to the President of the United States, and the Council on Prices, Productivity and Incomes set up in the United Kingdom. I presume you recommend something along those lines for Canada, do you?

Mr. KILGOUR: Yes, but in my judgment it would have a wider connotation. For instance, the Council of Economic Advisors to the President of the United States is composed of a group that simply advise the President; therefore; their pronouncements do not become public, and they can never produce the influence that I would hope could be brought to bear in a smaller country such as Canada, which might gain great strength from such a board. It would be an independent body giving only advice to Government, industry and labour. There are so many problems on which impartial judgment is very difficult to get.

Senator POWER: What about the arbitration boards that are appointed to settle differences between labour and management? They make a close scrutiny and study of the matters at issue, and come up with a decision. Would not that decision be of as much value as that of 25 people taken from business, and agriculture and so on?

Senator LEONARD: May I answer Senator Power's question? An arbitration board can deal only with the particular case before it, even though its decision may have an effect on another negotiation that is about to take place before an entirely different arbitrator. There is at any rate a place for advice by somebody who takes a broader look at the picture than does an arbitration board.

Senator POWER: Let me put this proposition: let us assume there is a pending railway strike; if an increase in wages is involved, that would be inflationary. In those circumstances I would think that the public generally speaking would be aware of that situation, without any advisory board telling them. The arbitrator would be cognizant of the facts and could recommend whether or not there should be an increase in wages.

Mr. KILGOUR: I am in an area in which I am, let us say, less well informed when I get into the field of labour-union negotiations. That is not a sphere in which I pretend to have any qualified judgment.

Senator POWER: That is one of the dangers you point out in your brief.

Mr. KILGOUR: In my opinion, if that was one of the greatest pressures on inflation in our country and there was a need for some study or voice on the subject, that could be one area of study for such a board. It seems to me there are many that are quite obvious and far-reaching, leaving that sphere alone for the moment. The first task is to try to check inflation or it might be deflation, say, two years from now. That in itself is an extremely important task. Sometime somebody is going to have to determine what is an acceptable level for Government expenditures in this country including all levels of Government, federal, provincial and municipal. There is a limit somewhere. I don't know where it is but somewhere sometime there is a limit on how much governments can spend in our country.

Senator POWER: If I am not misinformed I understand that in the United States there is a limit set by law or statute as to the amount which a government can borrow.

Senator HAYDEN: The federal authority.

Mr. KILGOUR: Yes, but the amount can be changed and it is changed quite frequently, and up it goes again.

Senator MCKEEN: Some individual states operate under that system too.

Mr. KILGOUR: There should be some system of correlating what the various governments spend. The provincial Governments are under terrific pressure as to what they spend and so are the municipal governments, but so far as I know nobody ever correlates these things to determine where in relation to our national good there is a broad upper ceiling beyond which there should be no further spending at any given moment by governments. It seems to me that such a board could develop some interesting judgments and expressions on a subject as broad as that.

Senator HAYDEN: That would be a particular application, the question of expenditures. Your proposition, though, is in the broad field of having an advisory body that would sort of study ahead all events and try to create public opinion and influence decisions. If you had a body of that kind advising the Government of the day it might be a very good place to start, for they could certainly wield an influence in many directions. They are representatives of the people or they would not be in office. So that might be a good place to start, even though it doesn't meet all the conditions you laid down.

Senator **Bouffard**: How could you force the Government, for instance, to submit certain problems to the board? In other words, if the Government did not submit its expenditures to the board, how could the board make any pronouncement? Likewise, if a labour union did not submit a problem to the board how could the board make a decision on the matter?

Mr. **Kilgour**: It seems to me they could address themselves to problems of true national importance without invitation.

Senator **Lambert**: Hear, hear.

Senator **Euler**: I would like to propose putting words into the mouth of the witness. I would think his proposal is that this board or whatever you like to call it would be free to investigate anything that might concern the public welfare and good. Whether it was a question that we were spending too much money or labour was taking too much advantage in connection with strikes, such as are contemplated now, or anything else that affects the public good, the board would have a right to make an investigation and report to the Government what they thought should be done. Whether or not the Government accepted the board's recommendations, there would be a lot of publicity given to it and the general public would be informed on all activities investigated. In that way public opinion would be invited and that in turn would have a good influence on the Government. Is that your thought?

Mr. **Kilgour**: I think you have expressed it eminently well. I feel the creation of an independent group would be of tremendous advantage. Such a group could give completely unbiased, impartial, judicial judgments.

Senator **Macdonald**: It occurs to me that you would have great difficulty in setting up this board, getting 25 people who would be completely independent and who would be representative of various walks of life and who could come to an agreement with respect to any single problem. We have mentioned labour problems. I suppose on the board you would have an economist who specialized in labour matters. Now, most of those economists are favourable to labour. You would have somebody on the board from industry, and of course he would be favourable to industry. If a problem arose as to a strike I can envisage there would be great difficulty on the part of the committee bringing in a unanimous view.

Senator **Euler**: There would be no harm if they didn't even bring in anything at all.

Senator **Macdonald**: No, but they might bring in two different views.

The **Chairman**: How would you appoint 25 persons who would be acceptable to the Government of the day?

Mr. **Kilgour**: Again I am not wise in that field at all but it seems to me one might use a process such as this. You might have each province nominate three persons. There are outstanding men in every province, men who are respected both for their impartial judgment and their integrity. You could have persons nominated from the various industries, men chosen for the qualities I have just referred to. Perhaps your final committee of selection might be comprised of the Minister of Finance, the Governor of the Bank of Canada and the Chief Justice. There could be some process of selecting the men to ensure a balance of strength on the board. I would like to think that the members of such a board would have the qualities of impartiality and breadth necessary to make fairly sticky decisions on a judicial basis.

Senator **Reid**: Are you giving any thought to controlling election promises made during municipal, provincial and federal election campaigns? These promises, many of which are carried out, are simply draining our financial resources. A candidate will promise everything under the sun just to get

elected. I can speak freely because I have been in public life since 1923 and I never made one promise to the public, except to give service. A municipal, provincial or federal election will come along and a candidate will say, "Elect me and I'll give you this and that" and when it is carried out it helps to bring about inflation.

Senator POWER: I had an amendment to the Elections Act along those lines but everybody laughed at me.

Senator LAMBERT: Mr. Kilgour referred in his brief to the Council on Prices, Productivity and Incomes which was set up in the United Kingdom. The impression I have gathered from what I have heard, not only here but elsewhere, is that the work of that council in the last two or three years has had a strong influence on stabilizing prices and checking inflation in Great Britain. It has been very effective. Would you tell us something about the character of that council?

Mr. KILGOUR: I can briefly do so. It was appointed in 1957 when Mr. Thorneycroft was Chancellor of the Exchequer. It was appointed as a committee of three men only, and it is frequently called "The Three Wise Men". It was comprised of Lord Cohen, a Lord of Appeal; Sir Dennis Robertson, Professor of Political Economy, Cambridge University, and Sir Harold Howitt, Ex-President of the English Institute of Chartered Accountants. Their terms of reference were:

> Having regard to the desirability of full employment and increasing standards of life based an expanding production and reasonable stability of prices, to keep under review changes in prices, productivity and the level of incomes (including wages, salaries and profits) and to report thereon from time to time.

They have been a very firm body and have come out with some strong views. They report several times a year on these various influences on the economy.

Senator MACDONALD: Are their reports made public?

Mr. KILGOUR: Yes.

Senator BOUFFARD: Do the members do anything else than work on this Council?

Mr. KILGOUR: No. I believe that is a full-time occupation for them.

Senator BOUFFARD: I would believe in a system like that but could you get 25 men to give up their regular jobs to take on this work of reporting to the Government on every angle of economy? It is a full-time job in itself.

Mr. KILGOUR: My conception was that there might be a committee consisting of a chairman and two or three executive members who would be employed full-time, and that the remaining members could meet for a period of a week on three or four occasions during the year, or as often as they might be called upon to pass judgment on the presentation and expert opinion that would be planned for them by the executive committee.

Senator HAYDEN: The remaining members would be the jury.

Senator LAMBERT: Was this council responsible for securing an agreement and approval of the labour unions in England in the matter of wages? Was it this council that negotiated that understanding and agreement, for it is right at the very basis of the whole picture, it seems to me, not only as to prices but as to wages.

Mr. KILGOUR: I am sorry, Mr. Chairman. I cannot give any detailed report on their procedure.

Senator LAMBERT: It was quite definitely understood that the Labour Party and the labour unions in Britain have fitted in with this idea.

Mr. KILGOUR: Yes. I think they are not wholly popular, but they are hewing to their objectives.

Senator LEONARD: Mr. Chairman, I can help to this extent. The first report of the Economic Council recommended that any wage increase in the ensuing year should be kept within the increase of the average productivity of labour. That was a strong recommendation they made, although they did not do anything more other than make that recommendation.

Mr. KILGOUR: That is my understanding.

Senator LAMBERT: Could that be established in this country by a council such as you suggest?

Mr. KILGOUR: Mr. Chairman, on that point I can only express a view that I might, perhaps, summarize in this way: At the moment we have no force, except the Bank of Canada—and I respect tremendously what it is doing, but the Bank of Canada is the only isolated defence against inflation that we have, and they are being shot at from every direction. It seems to me that a new vehicle which had responsibility, and the trust of the people, would create one more organized bulwark against inflation, and at the moment as long as all of us are talking in splinter groups we have no organized defence. Whether that concept is broad enough or detailed enough I do not know, but I am terribly concerned that if we do not set up some new force—in effect, we are letting it go by default. Whether the force works the first year as well as it should, and it will do better the next year, I do not know, but we do not solve problems by leaving them in a vacuum.

Senator ISNOR: Would you turn to page 2, Mr. Kilgour, and the last two lines of paragraph 3 where you say: "One sector cannot profit for long if it does so at the expense of the rest of the country." What had you in mind there? Did you have the Maritimes in mind as compared to Ontario, or some other section?

Mr. KILGOUR: No. I think, for instance, in a period of industrial price rises there is automatically a plea from the farmers for agricultural programs and price supports, and the pressure is there to catch up. So, if one sector of the economy moves ahead dramatically that seems to be the signal for everyone else to say: "We must have an increase of 5 or 6 per cent to catch up with that". The pressure is built up every time someone moves ahead.

Senator ISNOR: What would you say as to that sector of the country which you say is not so favoured in the picture you have painted?

Mr. KILGOUR: My judgment is so fallible that it is one more reason why I would like a national economic board.

The CHAIRMAN: Thank you very much, Mr. Kilgour—

Senator MCKEEN: Mr. Chairman, just on this point I would mention that in Sweden they have three areas, and wage agreements there are set in areas having regard to the cost of living in each area.

The CHAIRMAN: If there are no other questions, Mr. Poyntz would like to make a few more remarks.

Mr. POYNTZ: Mr. Chairman and honourable senators, if I could speak informally just as an individual for a moment, I would appreciate it. In commenting on Mr. Kilgour's idea, which is his own and, I think, a good one, I believe the essence of it is that many judgments are being made now on evidence that is incomplete. The evidence pertains only to the two people

involved in a discussion. The full impact on the economy is not appreciated, and this board that Mr. Kilgour suggests would bring to bear information from all sectors of the country so that all factors would be considered. The far-reaching effects of individual decisions and judgments would be made known by this group, and it seems to me it would serve a very excellent function in Canada.

There is one other point we might delve into a bit more in detail. We did mention it in the brief by the Association; it is the compatibility of stable prices and high employment. We feel that they are not only compatible, but it is essential that the two be considered together, and this is particularly true of Canada. The particular points that affect Canada in this consideration are these; in the first place, Canada is a large trading nation, and much of our prosperity depends on exports. Inflation could very easily price many of our exportable products out of the international market, and I believe there is evidence that this has happened to some extent already. If it should continue, inflation would, therefore, have a very direct effect on employment in industries in Canada.

The other point in international trade, of course, is this, that rising prices here make imports that much cheaper, relatively, and would, therefore, encourage interference with domestic production in the domestic market by the importation of relatively cheap substitutes from abroad.

Secondly, in Canada we have a lot of economic growth ahead of us—I will not say we are undeveloped, but we have a lot of future development ahead of us. This requires a lot of financing, and in an inflationary period lenders can demand and get a premium in the interest rate to offset what they expect to be a diminution in the value of dollars returned to them as lenders on fixed interest securities. This not only makes the cost of borrowing that much higher, thus putting a further strain on the limited savings of the country, but it has also the effect of discouraging lenders from entering into fixed interest agreements to provide the funds for expansion. I believe that fixed interest securities such as bonds, debentures and mortages really form the basis for financial expansion.

The third point which I think is important in Canada is that we just have not got the savings to finance the kind of development that we have witnessed post-war, and which we hope will continue. That is, we have to be importers of savings from other countries. We are not likely to attract savings from other countries if there is an uncertainty abroad as well as in Canada as to the long-range value of our currency. There has to be evidence that our dollar will maintain a purchasing power otherwise foreign lenders are not going to put their money to work in Canada and they are also going to be worried about the exchange value of those dollars coming back at a later time, which certainly would be adversely affected by a rapid inflation.

The point I would like to make in this connection is this: even if inflation were the answer to expanded employment, which it is not, would it be fair to penalize 100 per cent of the Canadian people for the benefit of say 1 per cent of the population, or about 3 per cent of the working force? Would that not be a high price for 100 per cent of all Canadians to pay?

Senator LEONARD: Mr. Chairman, may I mention to Mr. Poyntz the American Life Insurance Institute that is conducting an anti-inflation campaign, with which no doubt Mr. Poyntz is familiar. I wonder if the material used in that campaign could be made available for this committee?

Mr. POYNTZ: That material could certainly be made available to this committee, Mr. Chairman. We have made available this morning the Canadian counterpart of this institutionaal advertising program which follows a similar theme, although developed in a little different way. But we would certainly be pleased to make the United States information available to you.

Senator McKEEN: May I point out that the insurance companies in the United States, in their fight against inflation and in an effort to keep their policyholders, have adopted a policy by which they pay out benefits in dollars of the day, whatever their value may be. I understand several of the States have such contracts, the latest being the State of New Jersey. Has anything along that line been done in Canada, and if it were done, do you think it would have a retarding effect on people putting their money into the stock market? If they could buy more insurance on the assurance that at the end of the term they could get 100 cents on the dollar, might they not prefer to buy insurance?

Mr. POYNTZ: Mr. Chairman, this is an interesting development. I believe the honourable senator is referring to variable annuities.

Senator McKEEN: That is right.

Mr. POYNTZ: If I may make one comment right at the beginning: there is no guarantee to pay back in dollars of the day or in the equivalent of the cost of the purchase of the annuity. The contract would pay back only what the fund has earned; and the hope, of course, is that the fund would earn more, since it is invested in equities, than would a similar fund invested in fixed interest securities. But as I say, there is no guarantee.

Senator McKEEN: There is a company that purchase annuities for university professors. They now have a record, I think of some 25 years. What does that record show?

Mr. POYNTZ: I do not believe the equity part of that arrangement is 25 years old—it is more like four or five years old. The Teacher's Insurance and Annuity Association was created to provide pensions for the faculties of universities. These are normal types of annuities which have been in existence for quite a long time. The equity part is an adjunct to that: it is called the College Retirement Equity Fund, I believe, and is available to subscribers to the Teacher's Insurance and Annuity Association. There you have a closed corporation, and a very special one where this kind of thing might work better than for the public at large.

I say that for two reasons: employment in faculties of universities is very stable and is not going to fluctuate; the earnings of these people will not be affected much by the fluctuation in the economy of the country, and they will be able to maintain their payments to such a fund with more regularity than would persons in other kinds of employment. So, they are going to have a better record of constant payments into the fund right through their employment years.

Furthermore, they have to put at least 50 per cent of their contributions towards retirement into the normal type of annuity, rather than into the variable kind. Thirdly, it is probably fair to assume that this type of person will understand the conditions of the contract better than a good many other segments of the public. That is a very important part of the variable feature —there must be complete appreciation of what the contract calls for.

Senator McKEEN: I raise this point in view of the fact that we in this country are trying to stop inflation, and one of the points raised here today has been the purchase of common stock. I was wondering whether insurance companies could not do something to take the pressure off the stock market and increase the amount of money being put into annuities, thus bringing about more stabilization.

Mr. POYNTZ: Mr. Chairman, if this were done in a broad way by the life insurance companies I doubt that it would take the pressure off the stock market. Instead of the individual investing in common shares, an institution

would be doing it for a group of individuals, and it might bring even greater pressure on the market value of the existing supply of Canadian common shares.

Senator McKEEN: I take it the insurance companies have a group of men who would not buy stocks that would not yield, or did not have a prospect of yielding; whereas, the general public may buy anything.

Mr. POYNTZ: Mr. Chairman, I think that is a fair observation. I believe the question was also asked, if it would be possible for life insurance companies to do this. There would have to be some amendments made in the laws under which we operate to enable us to do it.

The CHAIRMAN: Are there any other questions?

Senator BOUFFARD: Mr. Chairman, does this complete the presentation by the insurance group, or will there be statements from other insurance companies?

Mr. POYNTZ: Mr. Chairman, there will be another appearance a week from today by members of another company, speaking for that company.

Senator BOUFFARD: I wonder if any comments are going to be made on the incidence of tax on inflation, or should I conclude that insurance companies believe that high taxation, especially income tax, has no influence at all on inflation?

Mr. POYNTZ: Mr. Chairman, I would say as a preliminary answer to that question, it is not our conclusion that it has no bearing. If it is agreeable, we could have that point covered next week.

Senator BOUFFARD: That would be agreeable.

The CHAIRMAN: If there are no more questions, may I on behalf of the finance Committee and the senators present today thank you distinguished gentlemen for the fine briefs you have presented to us, and for your kindness in the giving of your time to come to speak to us.

Mr. POYNTZ: Thank you very much.

—At 12.30 the committee adjourned until 2 p.m.

On resuming at 2 p.m.

The CHAIRMAN: Honourable senators, I will call the meeting to order. We have with us this afternoon Mr. H. H. Hannam, President of the Canadian Federation of Agriculture. He is accompanied by Mr. R. W. Carbert, Director of Information, Canadian Federation of Agriculture. The brief is going to be presented by Mr. David Kirk, Secretary-Treasurer of the Federation.

Mr. KIRK: Mr. Chairman, it is a great pleasure to be here and I think in order to keep the time I take to the minimum I will proceed to read this presentation.

The decision of the Senate Finance Committee to undertake this inquiry is very much welcomed by the Canadian Federation of Agriculture, and we are pleased indeed to have been afforded the opportunity of appearing before you. What has happened to farmers in the recent period of inflation is that their costs have been inflated, even more than the general price level, while their prices have gone down. As a result, farmers feel that they are special victims of the inflation of the post-war years, and are greatly concerned about the position in which that inflation puts them.

We propose to make this presentation a brief one, because the question that you have before you—that of examining the extent, nature and seriousness of the threat of inflation in Canada is a highly complex one with which in general terms we have no special competence to deal. Our purpose will be to examine the position of the farmer, in relation to this problem.

CHART 1

Price Indices—1949 = 100

Farmers have been faced, since 1951, by a progressive cost-price squeeze, caused by falling farm prices and rising costs. In Chart I, in addition to some general indicators of the inflationary trend, the indices of wholesale farm product prices, and of farm costs, are shown. The Chart is based on the data of Table I.

The chart deals with the composite farm cost index, the consumer index, the wholesale prices, and the wholesole farm product prices.

Senator LEONARD: Just to keep the records straight, this is your own chart?

Mr. KIRK: It is my own chart.

Senator LEONARD: And you have taken all these prices from the Dominion Bureau of Statistics' report?

Mr. KIRK: Yes.

The divergence between farm costs and farm prices is striking and sufficiently illustrates what the term "cost-price squeeze" means. Based on 1949 as 100, by 1958 wholesale farm prices stood at 97, while farm costs had reached 127.

At the outset, we should point out that inflation, as such, is by no means the only, or even the basic, cause of the farmer's problems. The falling prices experienced by agriculture in this decade reflect the terrific pressure of increasing productivity on the industry. Put in another way, the ability of agriculture to produce is outstripping the increase in demand for its products. Figures on productivity per man-hour calculated for The Royal Commission on Canada's Economic Prospects in its study "Output, Labour and Capital in the Canadian Economy" show that from 1947 to 1955 man hour productivity, expressed in constant dollars, increased by 68% in agriculture and by 22% in the rest of industry. The problems of adjustment of farm enterprises to this rapidly developing technology in face of inadequate demand for farm products, and the accompanying pressure toward reduction in the farm labour force and in the number of farms are very great; and they are aggravated by the traditional instability of agricultural prices.

These problems are not caused by inflation, but we believe they have been seriously aggravated by inflation, and by the economic conditions that have created the inflation of recent years. But before entering into a detailed discussion of all these issues we should like to briefly review our main conclusions on this subject.

Summary of Conclusions:

We submit, first, that there are three main respects in which the farmer has been directly, and adversely, affected by the inflation of recent years:

1. When consumer purchasing power is inflated, the effect in a period of abundant food supplies is that the consumer spends a smaller proportion of this inflated income in food. The consumer does not suffer in reduced food purchases. Instead, the farmer, because he cannot rapidly contract his production, experiences little or no price improvement in spite of the rising costs that inflation brings to him. Agriculture is in a process of gradual adjustment under pressure of technological change and adverse prices, but there is little prospect nevertheless that this tendency to downward pressure on his prices will ease within at least the next decade. As long as it continues, inflation increases and aggravates the farmers' difficulties, by pushing up farm costs while farm prices show little or no sympathetic upward movement.

TABLE I

PRICE INDICES—1945-1958

1949—100%

	Implicit Price Deflator-GNP[1]	Consumer Index	Wholesale Price Index	Composite Index of Farm Costs	Wholesale Farm Price Index
1945.........	76.1	75.0	66.6	75	72.7
1946.........	77.7	77.5	70.0	77	78.4
1947.........	85.2	84.8	82.3	84	84.0
1948.........	96.1	97.0	97.5	97	101.4
1949.........	100.0	100.0	100.0	100	100.0
1950.........	103.1	102.9	106.4	103	103.0
1951.........	114.1	113.7	111.1	113	117.3
1952.........	119.8	116.5	113.9	119	109.3
1953.........	120.3	115.5	111.2	118	96.8
1954.........	123.2	116.2	109.4	116	93.3
1955.........	123.8	116.4	110.3	117	92.9
1956.........	128.4	118.1	113.7	121	93.6
1957.........	133.8	121.9	114.6	125	92.7
1958.........	136.2	125.1	114.8	127	97.0

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[1] GNP refers to Gross National Product, the measure of the nation's annual production. The implicit price deflator is the index of inflation that is obtained in the process of reducing the Gross National Product to constant dollars.

2. A major contributor to inflation in Canada has been the investment boom, and this boom has also attracted outside capital to Canada and kept the Canadian dollar high in relation to other currencies, especially that of the U.S. This has happened in spite of greater inflation having occurred in Canada than in the United States.

The fact that we have inflation in Canada, combined with a very hard dollar internationally, has had a directly damaging effect on agriculture in Canada, by reason of a serious worsening of the position in foreign markets of the western grain producer and of livestock and other producers.

3. When inflation is forced on the country by an investment boom, as has been the case in Canada to a very large extent, one of the result is that the consumer's purchasing power is reduced, through rising prices, and this purchasing power is transferred to investment instead of to consumer demand for foods and for other goods. The effect of this is of course to reduce consumer purchasing power and increase the downward pressure on food prices.

Added to these three points, we would submit for your consideration the following further conclusions:

4. The aim of achieving stability in the value of the dollar is a very necessary and important objective of national policy and of concern to all Canadians. By this we mean first, that a chronic tendency to rising prices creates injustice, and social and economic disorganization. We mean further that bursts of rapid inflation can rear against us also by creating increased likelihood of subsequent deflation and depression.

5. A steady growth of the economy, with a high level of employment, is very much to be desired. In the difficult and complex task of framing monetary and fiscal policy, concentration on the objective of preventing further inflation should not be carried to lengths which are likely to precipitate serious deflation and industrial depression or stagnation. The farmer is very vulnerable to depression and unemployment on the following counts:

(*a*) He requires the maximum growth of population and of the demand for food that an expanding economy brings with it.

(*b*) He is particularly hard hit in a depression by this inability to adjust production to falling prices of his products, or to maintain farm prices.

(*c*) Necessary agricultural adjustment is seriously hindered by the disappearance of non-farm employment opportunities.

(*d*) The increasing indebtedness attendant upon the farmers' current efforts to increase his capital to meet modern conditions of production makes him particularly vulnerable to deflation and the necessity of repaying debts in deflated dollars.

6. The position of the Canadian wheat producer (and by the same token Canadian agriculture as a whole) has been further worsened in the export field by the existence of chronic world surpluses produced on a subsidized basis. The world wheat price has been forced down and is being kept down by surplus conditions, and increased Canadian farm costs due to inflation consequently bring with them no compensating rise in world wheat prices.

7. The argument sometimes presented that the way to fight inflation is to reduce government expenditure has in general little validity. Failure to adopt government programs necessary to give some stability to the farmer, and to assist in achieving a sounder economic position for agriculture, cannot be justified on grounds of reducing government expenditure to fight inflation.

8. There is a real and serious threat of a chronic tendency to inflation inherent in the heavy concentration of some of our basic industries. Studies in the United States have shown that inflation in that country can to a considerable extent be attributed to what are called "administered" prices—that is, the ability of basic industries such as the steel industry to raise their prices to a higher level than necessary to compensate them, in a period of rising demand, for increases in their costs. That this is happening and is true also of the Canadian economy is borne out by the fact that between January 1955 and January 1957 prices of iron and its products increased 16.5% while the general wholesale index increased only 6.2%.

Finally, we submit that public discussion of the problems of monetary and fiscal policy is much to be desired. The importance of achieving broad public understanding and acceptance of the need for enlightened and consistent public policy on these questions is very great, and there should be continuous effort to achieve such understanding and acceptance.

The Farmer In Inflation and Deflation—The Traditional View:

A traditional belief seems to prevail that inflation is good for the farmer. This may once have been true—when farm prices responded sharply to inflation. But the last few years prove different. So long as we have surpluses and a remarkably productive farm plant, farm prices are unlikely to increase significantly as a consequence of inflation. On the other hand, inflation assuredly increases farmers' costs. The result is likely to be less rather than more net income—particularly since purchased production goods in agriculture are becoming more important year by year. The idea that in periods of inflation the farmer prospers is related to the idea that periods of boom are often marked by expansion in demand for food, as well as for other goods, to a degree that makes the farmer prosperous. The implication further is rather that boom and bust is our natural state, and the boom is the only time the farmer can hope to make gains. Recent experience does not bear this out, and in fact it would strike us as doubtful if boom periods—which are often caused by heavy speculative activity—have ever been much real help to the farmer. Our main point is that our objective should be stability of prices with well-maintained prosperity and that all our efforts should be directed to developing national policies that will achieve this aim.

The view the farmer suffers in deflation arises from the fact that in deflation and depression the farmer, not able to reduce his output significantly, if at all, suffers very severe price declines as the purchasing power in the

economy drops. At the same time, others do reduce output and maintain prices to a much greater degree, and this adds rigidity to the farmers' costs. Thus while farmers do not want inflation, they prefer some inflation to deflation if this is the choice since deflation means a depressed economy. Professor Kenneth Boulding in his book "Principles of Economic Policy" says: ". . . . deflation is a disaster, while inflation is an inconvenience, to a market society. The way to get rich in a deflation is to sell one's goods, abandon one's enterprises, lay off one's employees, and hold as much of one's capital as possible in the form of idle money". None of these possibilities, incidentally, is open in any significant degree to the farmer. To continue the quotation: "The way to get rich in an inflation is to buy as much as possible, employ as many people as possible, hold as little money as possible, and devote one's capital and talents to the administration of real capital. It is little wonder that the deflation of 1929-32 rocked capitalism almost to its foundations, whereas countries have been known to advance even in the acute disorganization of hyperinflation". He concludes:

"One may perhaps venture a tentative conclusion that price stability is a useful ideal, but that errors in the direction of inflation are much less serious than errors in the direction of deflation."

This challenging quotation makes the case very powerfully for a slight bias, if bias is necessary, toward inflation, and at the same time points to one of the basic ways in which inflation is harmful—that is by a disorganization of the economy and of the operation of our financial institutions. Inflation, especially some substantial degree of it, not only creates serious injustices to many sections of the population, but in the effort to invest more and undertake more productive activity than the capacity of the economy allows, it creates inefficiencies, poorly considered decisions, and in the end is unsuccessful in making something out of nothing. Moreover, it can as a reaction to this disorganization cause the deflation and depression that is so much to be feared.

These observations, we appreciate, do not provide any answers to the urgent questions of policy that this problem of inflation involves. We have no such answers, and are keenly aware of the complexity of this problem, and of the fact that the difficult choices which may be necessary between alternative courses of action in various circumstances, make it impossible to be dogmatic.

For example, the Bank of Canada Report for 1956 concludes that in that year, perhaps the most critical year in our recent inflationary period: "It is doubtful if monetary policy can be expected by any reasonable degree of severity in its application to prevent price inflation entirely in the face of pressures of the nature and degree experienced last year in Canada and in many other countries."

We do not regard maintenance of the value of the dollar as the only object of economic policy in this country, nor would we be prepared to be dogmatic about its being an overriding objective. Having made this point, there is no doubt either that all reasonable measures should be taken to achieve stability in the value of our currency. Our methods of government finance, our methods of saving for old age, our methods of insuring and all kinds of saving—indeed all our financial institutions and practices are designed, generally speaking, to operate as if the value of money would remain stable. When it does not there is disorganization and injustice, and this should be avoided.

A great deal of concern is being expressed that growing public expectation of continued inflation in itself can be a most serious inflationary threat. The maintenance of public confidence in the stability of the value of the dollar should, undoubtedly, be a major objective of national policy. We hope that this Committee will emphasize that public and private activity in this country must be based on the premise that the threat of continuing inflation is one

that can be largely removed by appropriate policies and programs, monetary, fiscal and industrial—and that such policies should be consistently followed. This involves public acceptance and broad understanding of the issues involved.

The Direct Impact of Inflation on The Farmer:

The effect of an inflation of consumer incomes on the farmer in a period when food supplies are abundant or in surplus, as in recent years, is, as has been stressed earlier, very severe. It seems to us evident that in the presence of abundant supplies the immediate result of inflated incomes will not be to increase food prices to any significant degree—in fact, as we have observed, they may decline. Some consumers may buy a little more or a little better food, but in the main the increased incomes will go into non-food purchases. This is particularly true in view of the fact that as the marketing margins increase, retail food prices reflect lowered levels of farm prices to a lesser and lesser degree. Inflation therefore increases the cost to the farmer, while giving him no corresponding gain in price, and so aggravates the cost-price squeeze and the already difficult problems of adjustment being experienced by the farm industry.

There are doubtless many inflationary influences in our economy today, but certainly an important one is a high rate of capital investment in the economy. Canada's rate of investment in the post-war period expressed as a percentage of its national income has been very high—I believe about 22 per cent in 1956—and when in a period of prosperity this high rate of investment outruns savings, the result is that the consumer is involuntarily deprived of purchasing power to pay for the investment program. Such "forced savings" hurt the farmer, who is a producer of consumer goods. The operation of an inflationary influence of this kind results in much more than a simple uniform rise in prices. It results also in a shift of demand away from consumer goods to investment goods. While industry is reasonably well able to shift production quickly and without difficulty, the same is not true of agriculture. A heavy drain on the national income in the form of investment thus tends to represent a corresponding depressing influence on consumer demand for food.

Another serious consequence of inflation to agriculture occurs in the field of trade. One of the major factors determining the prosperity of agriculture is the degree to which Canada can export its surplus of agricultural production —principally in the form of grain, but also in the form of livestock products —at reasonable prices. Other things being equal, inflation of the currency of a country results also in its depreciation expressed in terms of other currencies. Yet between 1948 and 1957 retail prices in the U.S. went up only 17% while in Canada they went up 26%. At the same time, instead of the Canadian dollar depreciating in relation to the American, it actually strengthened. In 1947 the U.S. dollar was on a par with the Canadian. In 1957 it was at a 4% discount. What this amounts to is a very serious decline in the ability of agricultural exports to compete with those of the United States and of other countries. The value of the Canadian dollar in terms of the U.S. dollar has been maintained by the very high capital inflow from the United States. While such a capital inflow serves to hold down inflationary influences in time of booming investment, it does so mainly by means of cheapening imports and making exports more expensive to the foreign buyer. This process has had directly adverse effects on Canadian agriculture. Even apart from the depression of wheat prices caused by heavy world surpluses, grain export prices have been hurt by this phenomenon of rising costs at the same time that export prices are depressed by the high international value of the Canadian dollar. This effect has had its influence not only on grain exports, but on the ability of the Canadian farmer to compete with the United

States in other products. It has thus held down returns on our exports and increased the ease with which U.S. farm products may be imported in competition with our own.

The following table presents data illustrating what has happened. It presents comparisons between Canada and the United States, and also provides some interesting international comparisons which show that inflation is not necessarily correlated with growth in real wealth. (See Table II). For example, Australia has had a heavy inflation but very little growth in real wealth. Germany has had the most modest degree of inflation, and great growth in national production. Canada has had considerable inflation, and considerable growth. France has had a heavy inflation but also an impressive period of economic growth.

Added to this exchange rate situation is the fact that chronic wheat surpluses, produced largely under subsidy, threaten to hold down wheat prices, at least to their present level, for some time in the future. In such a situation the grain producer has no protection against rising costs, and his difficulties adversely affect, in turn, the whole agricultural economy.

TABLE II

How Canada Compares: Wages, Prices and G.N.P., 1948 to 1957, Percentage Increases

Country	Money Wages	Retail Prices	Real GNP Per Capita
	%	%	%
Australia	109	102	1
Canada	76	26	31
France	149	77	60
Germany	105	14	75
Netherlands	68	55	26
Sweden	102	47	25
U.K.	77	51	16
U.S.	54	17	25

Source: National Industrial Conference Board.

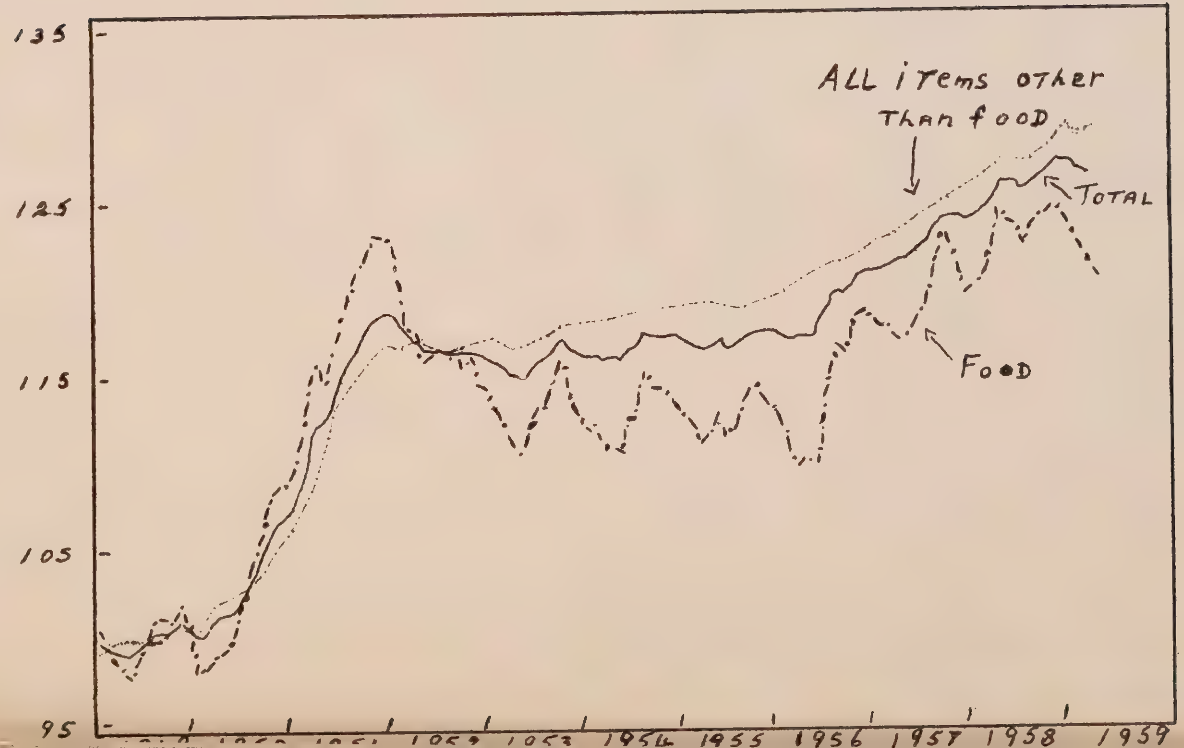
The Contribution of Agriculture to Lowering Living Costs:

Chart 2—based on D.B.S. indices—contrasts the rise in general consumer prices with the cost of food.

The chart shows that the index of food costs has except for a brief spurt in 1951 stayed below the general level of costs. Food has therefore held down the cost of living, and it has done this in the face of sharply increasing costs of food processing and distribution. This has only been made possible because of lower farm prices. Agriculture has therefore definitely not contributed to inflation in Canada—quite the opposite. The chart is based on 1949 as 100 and begins with the year 1949; but in the 1945 to 1949 period the same situation prevailed. In those years the farm products index went

CHART 2

Consumer Price Index
1949 = 100



up about 25 per cent, while the consumer index went up almost exactly 50 per cent. Agriculture has therefore been a persistently anti-inflationary influence since the war. The 1945-49 figures, from official indices are:

Farm products index 1935-39=100		1945—166.4
		1949—228.7
	Inc.	— 42.3—or 25 per cent.
Consumer prices index (Food) 1949=100		1945— 66.3
		1949—100.0
	Inc.	— 33.7—or 51 per cent.

In this connection it may be noted that during this 1945-49 period the Canadian wheat producer willingly cooperated with the government in supporting the Canada-U.K. wheat agreement and the development of international wheat agreements. In so doing he was attempting, with considerable success, to lay the foundations of domestic and international systems of orderly marketing. He did not grab for, or obtain, the high inflated wheat prices that could have been demanded during the severe post-war food shortage. In acting in this way he made a very great contribution to modifying the heavy inflationary pressures of those years, to the lasting benefit of the nation. This fact should be kept in mind when considering recent requests of western grain growers for measures to offset the effects of heavily subsidized competition in world markets.

The Need For Sound Agricultural Policy:

The problem of agricultural adjustment is not one that can be solved either by having inflation or by not having it. It is a problem that has as one of its consequences abundance of food to the consumer at low prices, insofar as sharply rising costs of processing, distribution and extra services do not offset these low farm prices. On the other hand it is a problem that creates severe social and economic difficulties for people in agriculture—difficulties that fully justify comprehensive government measures to make the process of adjustment orderly, to facilitate that adjustment, to ease the hardships attendant on the adjustment, and to give the maximum short-run stability in the process. Present programs of price supports, and promised new programs of farm credit, agricultural development and re-establishment and crop insurance are designed to achieve these things.

These programs are justified and the costs and expenditures involved in them are justified. In this connection the problem of inflation has one possible direct bearing. It is sometimes argued, and perhaps with some validity, that rising levels of government expenditures are, or tend to be, inflationary in their effect, and that therefore reduction of government expenditures is an important means of fighting inflation. The Regina Leader-Post concluded a series of articles on the threat of inflation with two recommendations, one of which was for "prompt and sharp reductions in government spending, with increases in taxation if necessary". We would warn that a single-minded concentration on the use of reduced government spending to fight inflation can cause serious injustice. There is little case for reducing well justified government expenditures in the interests of fighting inflation.

Agriculture's Stake in National Prosperity:

There is a further aspect of the problem of agricultural adjustment that should be noted. On the one hand, excessive rises in the price level represent a robbing of consumer income in favour of investment. Insofar as this happens

demand for food is adversely affected, and the inability of agriculture easily and quickly to adjust production means that agriculture's adjustment problems are aggravated. On the other hand, it is also true that a high level of employment in the economy greatly facilitates agricultural adjustment by making it relatively easy for people to shift from agricultural to non-agricultural employment. The existence of non-farm employment opportunities is a very necessary condition for achieving healthy agricultural development. Agriculture has as big a stake as any group—perhaps bigger than most—in seeing an economy that remains in a state of healthy growth with a minimum of unemployment. Also, since the technological revolution in agriculture is characterized by growing capital investment, healthy economic adjustment requires considerable use of credit not only for new capital but for consolidation of farm units. It is evident then that deflation, accompanied by substantial unemployment, would be disastrous in the extreme to farmers who would find labour backing up on the farm, lowered prices and further over-production, and in addition a debt structure established with inflated dollars that would have to be paid off with deflated ones.

Administered Prices and "Cost-Push" Inflation:

It has been strongly argued that most of the inflationary forces in the United States in recent years have had their origin in the segment of the economy where "administered" prices prevail. These are the industries such as steel and chemicals where clearly monopolistic forces prevail because of the small number of very large firms. It has also been demonstrated that labour unions, in the conduct of their bargaining, have been able to take advantage of the profit margins created by these administered prices. In periods of steady, and more particularly of rising demand, such as has been typical of the post-war period, companies who "administer" the prices of their products raise prices and increase their earnings without fearing that they would be in danger of being hurt by the operation of the competitive forces which are supposed to operate in a free market. However, these price increases generate price increases throughout the economy, and labour in turn renews its demands for higher wages. The result is a built-in inflationary mechanism in the economy which has been described as one of the "wage-push" or "cost-push" variety. The disproportionate increase in the index of iron and steel product prices in the following table seems to bear out this analysis:

Table III

WHOLESALE PRICES

	January '55	January '57	% Increase or Decrease
General	215.8	229.2	+ 6.2
Vegetable products	197.1	203.5	+ 3.2
Animal products	226.4	237.6	+ 4.9
Farm products total	214.6	211.6	− 1.4
Textiles	224.0	234.3	+ 4.6
Wood plus prods.	289.7	298.1	+ 2.9
Iron and its products	214.9	250.3	+16.5
Fully and chiefly manufactured goods	222.2	237.8	+ 7.0

I would call attention to the figures given in the steel industry with respect to the general wholesale picture—

Senator LEONARD: These are Canadian figures?

Mr. KIRK: Yes, these are Canadian figures from the Prices and Price Indices Publication of the Bureau of Statistics.

The CHAIRMAN: Any reason why you picked out the steel industry for comment?

Mr. KIRK: Well, because steel actually is very often used as the classical symbol, and as the most important example of an industry that is very basic.

Rising Prices In a Period of Unemployment:

One of the causes of special current concern about inflation is of course the phenomenon, witnessed particularly in 1958, of rising prices and costs at at a time of serious unemployment in the economy. This phenomenon raises the question whether or not rising wages have become an independent inflationary factor by virtue of the effective organization of labour and the pressure in labour organization to bargain for higher wages. It is difficult to see, in the period through which we have just passed, what factors other than this or the phenomenon of administered prices could have caused rising prices in a period of unemployment.

The insulation of the price of labour from the impact of surplus supplies on the labour market may well be a satisfactory means of achieving a greater stability and quicker correction of tendencies to depression. Nor is there, it seems to us, anything wrong with wage increases in recession periods provided they are in line with expansion in per capita productivity of labour. But in 1958 average hourly earning rose 3.75 per cent, while the national income in constant dollars rose only 1 per cent. The effect here is certainly inflationary, it seems to us, and if this analysis is sound is cause for some concern.

I might point out at the same time this actually happened, the actual employment in industry, apart from industry 1958, rose a little bit.

In completing this presentation we are aware that we have not provided definite answers to the important questions of monetary and fiscal policy with which this Committee is concerned. With Professor Knox as a witness the Committee found itself examining whether it is necessary to make a choice between unemployment and inflation. Does there have to be a bias of policy in one direction or another, or can the aims of growth, stability, justice and freedom be simultaneously achieved in a large measure by wise policy? It is our hope that a reasonable approximation to this ideal can be reached. The gains and losses to one individual or group or to another resulting from inflation are undeserved in either case, and should be avoided.

This Committee by its work can help provide public understanding of the requirements of sound policy. This in itself will clearly make much easier the task of following a wise and balanced course.

The CHAIRMAN: Thank you. On behalf of the committee, Mr. Kirk, I congratulate you very highly for a very good presentation. Probably some of the honourable senators would like to ask some questions?

Senator REID: On page 2 in paragraph one of the brief you say, "When consumer purchasing power is inflated, the effect in a period of abundant food supplies is that the consumer spends a smaller proportion of this inflated income in food." My own observation is that these people are eating more and better than they have ever done, but that they have changed their diet.

Mr. KIRK: That is right.

Senator REID: For instance, I think there has been less butter consumed in this past year. One of the things that puzzles me is how far we can build up our surpluses with that change in diet. I believe the Canadian people are eating better than they ever did before, but I may be wrong.

Mr. KIRK: No, that is true.

Senator REID: They may not be buying as much beef or pork or butter, but they are buying food?

Mr. KIRK: That is right. The actual proportion of the total consumer income spent on food has been dropping somewhat in recent years. I do not have the exact figures here for that, but this has been happening. I think I should explain that what we are talking about here is a period of inflation. We are discussing what happens during a period of inflation for the most part. We are here talking of the short term effect, the fact that the inflation happened. As long as it happens agriculture is put in a somewhat worse position, because the food is there. The consumer's income goes up. His real income may not go up at all; it may be just his money income goes up, and unless there is some real pressure on him to buy more food or unless the farmer very quickly cuts back as a result of rising costs in production, which he does not, then there is no reason I can see why the consumer will spend more money on that food.

Senator LEONARD: Let us suppose that a man has an income of $75 a week and is spending half of that income in food. If he gets another $25 on top of that, bringing it to $100, he will not spend half of the excess income on food, but a smaller proportion of the increased income on food. Therefore, his proportion of his total income going into food decreases. Is that the point you are making?

Mr. KIRK: That is what happens exactly, yes.

Senator LEONARD: He actually spends more money on food but a lesser proportion of his income.

Senator REID: The information was given this morning to us that the dollar today is worth 62 cents compared with the dollar in 1946. So we are really in an inflationary period right now. My question is, from the agricultural point of view and the consuming point of view, are the people eating less of the foods that are making up the surplus, consisting of milk, eggs, butter, and so on?

The CHAIRMAN: And pork.

Senator REID: Yes, and pork.

The CHAIRMAN: There is an enormous consumption of pork.

Mr. KIRK: No, the people are not eating less. They are eating a great deal more than last year of pork, and still more than the year before that, but in spite of that the production has been such that in addition there are surpluses in Government hands. So it is not so much that the consumer has eaten less and built up a surplus, but that the consumption has been built up and the surplus has been built up.

Senator WALL: It would be fair, would it not, following on Senator Leonard's comment, to say that generally speaking the best standards of living, however you want to define that, improve, and that naturally there is a smaller percentage of income devoted to foods?

Mr. KIRK: Well, that is true. The statistics on that measured by the total proportion of national consumer income spent on food do not show this very sharply, and there are two reasons that they do not, I think, over a period of years. The first is that consumers have been buying more and more services with their food. To some extent this is a direct economic result. If a housewife is producing downtown in an office, then she has a corresponding added expense directly because of that in increased food preparation service. The other reason is that there has been, at least until recently, a certain group of consumers who are just so hard up that they would spend more in food,

and would spend considerably more if they had more income. They were at that low level, you see. There is an income level at which an increased income will be met by an increase in food purchases.

Senator REID: I was surprised to learn the other day that the people of Canada are consuming less flour per capita. The inflated dollar cannot be the cause of that.

Mr. KIRK: No, the inflated dollar is not the cause of that.

The CHAIRMAN: The same applies to potatoes in New Brunswick. The people are not consuming potatoes in the quantities per capita that they used to consume. They are dropping down because people say they are fattening.

Senator REID: Other reasons enter into it. People change their diet.

The CHAIRMAN: A lot of people are eating fancy foods.

Mr. KIRK: The reduced eating of potatoes and grain products, for example, is the result of diet habits and preferences, and also of higher real income. As people get more money they can afford to spend on the better foods.

Senator LAMBERT: Mr. Chairman, on page 16 of the brief the witness has referred to the inflationary forces in the United States saying that in recent years they have had their origin in the segment of the economy where administered prices prevail, and he goes on to emphasize the history of the steel and chemical industries in this regard where he says clearly monopolistic forces prevail. I would like to ask whether any consideration has been given in connection with these forces to the vast numbers of dollars tied up in farm surpluses in the United States as a result of farm subsidies which Mr. Benson has tried to remove but so far is powerless to do. Would you not agree, Mr. Kirk, that that has been greatly contributory to the inflationary spiral in the United States?

Mr. KIRK: I would think this, that the United States price support programs have bolstered the prices of commodities.

Senator LAMBERT: And that these policies in turn have reacted against Canada in its efforts to compete in markets abroad.

Mr. KIRK: That is true.

Senator LAMBERT: That brings up the whole question of subsidization or price support policy. We have had it here in this country too, and I am just wondering if that aspect of the problem, from the point of view of agriculture, might not be an argument in favour of the curtailment of subsidization.

Mr. KIRK: We suggested in our brief that a reduction is what we would like to see. We do not think much of the argument that reduced Government expenditures were deflationary. I think it is also clear from our remarks that we talk about the necessity of adjustment and the objective of the Canadian Federation of Agriculture on agricultural policy, the long-term objective is not a permanent subsidization of agriculture—our request is to help the adjustment. I would not be prepared just offhand to try to analyse exactly what effects United States support programs in the United States has had on inflation in the United States but I would say that relatively the amounts of assistance and subsidization and support of agricultural products and producers in Canada could class as a very minor inflationary influence and more than offset by an actual drop in farm prices. Does that answer your question?

Senator LAMBERT: I do not think it answers it completely. I would like to point out that the competition Canadian grain has to face, for example, and I think it applies to other farm products as well, may be very embarrassing from the point of view of export trade, does not all come from the United

States. We have had some pretty strong examples of competition from abroad, which is far more devastating than any competition from the United States.

Mr. KIRK: I quite agree there is hardly a country in the world except some exporters, Australia and perhaps Argentina, who do not in effect subsidize their wheat.

Senator LAMBERT: Consider the impact of Russia. Their aggressiveness at the present time is shown in their methods of promoting sales of their agricultural output. Great Britain, for example, has been quite a growing customer of Russia in relation to the importation of grain. Now, that certainly must have a bearing upon the export trade in grain from Canada to the United Kingdom, and other countries as well.

Mr. KIRK: Yes, and it can very well be subsidized, but I do not know whether Russian exports are subsidized, but they could be.

Senator LAMBERT: The wheat problem interests me very strongly because I lived with it for quite a while, and I might say that I notice in the statistics that you quoted, which are from the bureau, regarding the value of the dollar in relation to the purchasing power of farmers, the producers of the middle west are helped to a certain extent by more efficient production as a result of mechanical improvements, bringing about a condition which does not require as much labour, as was previously required.

Mr. KIRK: That is right.

Senator LAMBERT: I tried to put my hands on the information which came to me from the Bureau just recently but I could not find it: I think that aspect of cost of production on the Prairies particularly in relation to the growing of grain might modify that very considerably.

Mr. KIRK: I think it is true that there has been definitely increased productivity in the grain industry. If there had not been a rise in productivity the situation in regard to these costs and prices would have been completely intolerable long before this.

Senator WALL: I gather that you would concur that rising levels of government expenditures can be inflationary. Would you agree that governmental expenditures can be inflationary generally speaking—I notice you tend to minimize that because of the safeguards you are building into the argument.

Mr. KIRK: I could very easily get beyond my depth on this economic topic, but my thinking on that is, and it is largely traditional, simply that more important than the level of government spending is the relationship between the level of government taxation and government spending. This is what is usually thought of as the basic inflationary or deflationary influence in fiscal policy. But in addition to this you do have the fact that a high level of Government spending is very widely thought of not so much as being inflationary strictly but that we have it as a more effective built-in stabilizer that stops deflation quicker, and consequently it is an effective antidote to deflation and depression. It reinforces to some extent the bias towards inflation in the whole economy, but so far as inflationary influences and fiscal policy are concerned I think the big thing is the relationship between the taxation and the expenditure, for after all, speaking very generally, you can spend your money one way or the other, and if the Government spends it, having collected for it, then I do not see any reason why that should be inflationary.

Senator HIGGINS: Coming back to what Senator Reid said, do you say that a man spends less proportionately on food today than he did when he received smaller wages? Let us say a man earns a salary of $10,000 and he

has a certain standard of living and he eats well. Then suddenly his salary is increased to $20,000. Well, he doesn't spend a proportionate amount of that increase on food but he spends it on buying better houses, cars, boats and so on. Is that why a man spends less today proportionately on food than he did when he had smaller wages? In other words, when he gets an increase in salary he buys luxuries.

Mr. KIRK: Yes.

Senator LAMBERT: This brief is a very important one and it certainly reflects the point of view of an important industry in this country, a basic industry. I would suggest that we should have more time to absorb and analyze the brief, and possibly discuss these problems with the Federation witnesses at a later time.

The CHAIRMAN: We will try to arrange a further meeting with the Federation.

Mr. KIRK: I would be very delighted to return.

The CHAIRMAN: On behalf of the members of the committee I want to congratulate the Canadian Federation of Agriculture on their excellent brief.

The committee thereupon adjourned.

APPENDIX A

STATEMENT DELIVERED BEFORE THE STANDING COMMITTEE ON FINANCE OF THE SENATE OF CANADA

By — E. C. GILL

President, The Canada Life Assurance Company.

Mr. Chairman and Gentlemen:

Suppose the Canadian Government decided to try to levy a tax on the sections of the population least able to bear it and least able to organize themselves to oppose it, what would be done? First they would say, let us strike against the retired people. You have seen many of these ads—many of these have been our own—how I retire in so many years with $300 a month. Retired people are in no way organized to oppose a tax on their modest retirement incomes. Then they would say let's strike against widows and orphans living on an income from a Will. Maybe the Testator has said "I leave $5,000 a year to my wife and so much to my children following her death", and no matter what the figures are, there are very few who could leave large enough figures to withstand, let's say 50% tax levied against that widow's income. The Government would also say let us strike against the weaker salaried employees—teachers, ministers, civil servants, or anyone whose salaries are subject to the approval of municipal and other elective bodies. Their ability to strike back is much less than others might be. Then let the strike be across the board against holders of small bank balances, small bondholders, holders of life insurance policies, all groups that large though they may be are unorganized to fight back, and so on, you could recite many others. And how would the Government do it, how would they levy this tax. It would be the simplest tax they ever levied. They would fail to balance the Federal Budget, encourage inflation of the currency, creeping inflation, galloping inflation, or whatever you like, encourage the loss of purchasing power of the dollar, debauch the currency. Millions and millions of transactions per day in Canada and the United States and in all the free world are made to depend on a reliable currency. In other words every monetary transaction, whether it be life insurance, or whatever it is, is made today to be implemented tomorrow or many years from now, and it depends on one statement—I declare so many dollars payable. Well, if the dollars are not worth what they are supposed to be worth we have no economic system. Lenin was apparently a shrewd economist, among his other assets and liabilities, and a philosopher. One of his famous quotations was that the way that the Communists could really defeat the capitalistic world was not by military might but by letting them debauch their own currencies, and nothing he ever said was truer than that.

The Governor of the Bank of England, Cameron Cobbold, said, "The future well being of the free world will depend in no small measure on the success of the United States, Canada, and the United Kingdom, and the other great trading countries, in maintaining stability in the national and international value of their currencies".

Gentlemen, nothing could be more dangerous than the assumption that a little bit of inflation each year is good for the economy, in other words a creeping inflation. No inflation will creep for long or forever, it will soon gallop. Just like a little pregnancy you can't stop it from growing.

Now one of the favourable things about this whole subject, gentlemen, is that millions of people believe and know that this problem of inflation is the most serious problem facing the free world other than the peace of the world. There is nothing to compare with it.

In the United States there are some very worth while organizations speaking up. There is a committee called the Committee for Economic Development, a committee of businessmen, a committee not only of financial people, trust people, insurance people, bankers, and so on, who see this problem day to day, but a committee of outstanding industrialists of the country. It is a committee that is composed of these men and they do their own work—they do not employ others to write the articles and so on. I just want to quote a few paragraphs from one that came out a few months ago, and to show you the calibre of the man who wrote it—the head man was the Chairman of Sears Roebuck, and in one of his concluding paragraphs he said—"We do not accept the idea that inflation need be tolerated, for while it may creep for awhile there is a danger that soon it will gallop out in the open. We know too that even at a creep it is intolerable because it erodes the value of long term fixed money obligations and crucifies the weaker groups in our society. Nor is a rising price level essential to real growth and sustained productive employment. In fact by distorting the normal incentives for efficiency in business and increased productivity of labour it may well endanger the sustainability of growth. There is danger of long term inflation in this country, but it is not inevitable. The nation can have both stable prices and high employment, if it is willing to adopt the policies required to make them consistent. We do not have to sacrifice high production to avoid inflation. The only thing we need to give up is an illusion, the illusion that we can get more out of the economy than we put into it, that we can consume more than we can produce. The responsibility for preventing inflation is the joint responsibility of Government, business, labour, and agriculture. The Government's chief responsibility is through the exercise of its monetary and fiscal policies to keep demand from rising faster than the nation's ability to produce. To clarify the responsibility of Government in this regard the Employment Act of 1946, which is an Act of Congress, should be amended to include stable prices as a specific objective of policy along with ones that are there now, maximum production, employment, and purchasing power. In other words, it puts the stability of currency right on the top level of Government objectives to maintain maximum production employment, purchasing power and stability of the currency,—(and as I understand it, I am not completely up to date on this, I think there is a Bill in Congress now that would put that in the Employment Act.)

"By whatever method the villain of inflation is detected, there is no question that getting rid of him is a matter of the greatest national urgency, for the people of the United States are properly dedicated to a clear-cut purpose of steadily rising standard of living for everyone. We of the C.E.D's research and policy committee subscribe to this goal with no reservation, except that it be achieved in freedom. In other words, not with a lot of controls over everything, as there would be in war time. It is precisely because we feel its importance so strongly that we would spare no proven measure to free our economy from the cruelties of inflation, for we know only too well that, in the political and economic climate of the contemporary world, failure to achieve the goal of stable growth could easily mean the end of our way of life and who would pay a price so high for the dubious pleasures of inflation, even of the creepiest kind." (end of quote)

Now, turning to the situation as of today, what is the inflation situation and what can be done about it? The position today is unique. The inflation with which we are threatened today is unlike any which has heretofore been

encountered. Historically, inflation has resulted from too many dollars chasing too few goods. No such cause exists today. Actually, for the last few months in the U.S. and Canada the cost of living indices have been holding even—they have indeed gone down very slightly. The cause which does exist and which is giving grave concern that inflation may break loose is an even more powerful one. It is entirely psychological. Too many people believe that inflation is inevitable. This false assumption leads in turn to actions by individuals and Governments, which if continued will result in inflation and the consequent defeat of our responsible enterprise system. This inflation psychology is a major obstacle to Government in playing its essential part in the anti-inflationary battle. No Government can maintain its mandate to govern without the support of its constituents. Governments must take the lead in avoiding inflation, but to do so they must have the co-operation of the public. Now, there are three places where this psychology shows up. One, it is in the inflationary minded stock market. Number two, it is in Federal Government deficits, and, number three, it is in labour's demand for wage increases beyond the increase in productivity.

Now, regarding the first of the three—the stock market. The stock market (and we'll judge it by the Dow Jones Industrial averages, the best test of stock values on this continent), of course has hit a high so many times you can't keep track of it. It is now over 600. It has passed all the bench marks that were ever created with regard to earnings or dividends. The real problem here is the inadequate supply of stocks and we really have a classical inflation here. In other words, too many dollars chasing too few goods, too few stocks. Investment Trusts, Insurance Companies, mutual funds, private individuals, pension funds, etc. etc., are all trying to buy into the existing supply. The supply is not going up fast enough. It is going up a little bit, but the great American industrial, utility and financial companies listed on the New York Stock Exchange are not issuing new stock at the rate at which the buyers are increasing. I only wish that everyone, or nearly everyone, of those great companies would issue a lot of additional common stock and that would take the steam out of the market. Then values would be related to earnings and dividends. We had an example of that here in Canada. Our market is just as high or higher than the Wall Street market based on earnings and dividends. One of our large industrial companies, after much consideration between bonds, preferred stocks and common stocks, issued a very large block of additional common stock. That had the effect of flattening out the market, and now you can buy and sell that stock freely. Furthermore, this means that people who purchase this stock have a far better chance of getting an increase in market value over the years.

In regard to buying common stocks, I believe inherently in them, I feel that people should have confidence in the common stocks of the great United States and Canadian companies. They will undoubtedly have a growth factor over the years in the dynamic economy of this North American continent, but they should be bought on this basis—gain in earnings, gain in dividends, and asset values, and so on. To suggest that you have to assume inflation in any way directly or indirectly to justify the purchase is in my belief an argument from weakness.

The second of the three situations is in regard to Federal Government deficits. Balanced Federal budgets as soon as they can be attained are an absolute necessity. Certainly the deficits of the year just past were justified, because that was a year of recession in business and tax collections went down, and it was right that there should be deficits, or else there would have been a much deeper recession.

Now, first in the United States. As you know, President Eisenhower has proposed to Congress a balanced budget at about 70 billion dollars for the fiscal year starting on the 1st July 1959. The system of Government is different in the United States than it is in Canada. Vitally different in this. This is the administration suggesting something to Congress. Many of you know better than I do that Congress does not necessarily have to do what the administration suggests. In Canada, when the budget comes down, brought down by the Government itself, with over 200 members in the House—that budget is going to go through. There may be a few modifications but they will only be ones that the government willingly, after representations, agrees on. Now, I understand very clearly that there could be a deficit in the United States budget that Congress finally passes of, say, 2 or 3 billion, something of that order, but all you can say is that compared with the 12 billion deficit for the fiscal year ending 1st July, 1959, it's a tremendous gain. Again if the words of the Committee on Economic Development can hold true, and I quote those words—"any increase in expenditure above the President's budget should be balanced and matched by additional taxes". If that holds then you would have a balanced budget for the fiscal year 1st July, 1959 to 1960.

The Canadian situation is more difficult temporarily than the American. We have recently come through a general election during which the Government now in power made certain promises and commitments which they have implemented—hospital insurance, increase in Old Age pensions, other payments—so they are up against two difficulties—one, the recession which dropped the revenues and, second, all these extra expenditures which are built right into the structure of payments. So if the Finance Minister's estimates of a budget deficit of something under $400 million for the fiscal year ending 31st March, 1960, are borne out—compared with a deficit of $616 million for the year ending 31st March, 1959—it will be very worth while progress. The Government has taken a courageous step and the balancing of the budget next year—that is in the fiscal year commencing 1st April, 1960—is of the utmost importance in the battle to save the purchasing power of the Canadian dollar.

Now, regarding the third, as to labour's demands. If they go beyond the increase in productivity we are in trouble. Wage rates are high both in the United States and Canada, and on the average there is no reason why they cannot continue to rise at the same rate as the increase in total output per man hour. In other words, machinery is more efficient. A man can produce more goods in an hour, and that factor can in many years justify a wage increase of between 2 and 3%. Now the time of decision has come in the United States. The largest Steel Company in the world is sitting down with its Unions to discuss wage agreements that expire in mid-summer. The United States Steel Company has already said that "with the already high rates of wages, we in the United States Steel see no reason why there should be more employment cost increases and more price increases this year. We will exert every effort to avoid both". Now, whether they are successful or not is a very important point because the U.S. Steel and the other Steel Company settlements will determine so many other settlements.

The Governor of the Bank of Canada, in Ottawa, has come out strongly. I shall quote sentences from his statement: "Perhaps the greatest obstacle is the spread of the theory that democracies cannot have both high employment and stable prices, that they must inevitably choose between unemployment and inflation, that high employment can only be achieved by the acceptance or even the deliberate creation of some degree of inflation. I am certain that these views are fundamentally wrong. The idea that readiness to create or

tolerate inflation can make a useful contribution to the problem of maintaining a high and expanding level of employment and output is in danger of becoming the great economy fallacy of the day." (unquote)

In my own life insurance business we have nothing to sell but future dollars. If we felt firmly and were absolutely convinced and were willing to give up the fight against inflation of the creeping or galloping variety, we certainly would have no right to sell the product that we are selling today. I agree with a very brief comment made by the President of one of the American Life Insurance companies of Wilmington, Delaware, in which he says that in the final analysis the outcome will depend upon public opinion —when enough people experience the evil effects of inflation it will be stopped, but probably not before. And I quote him:

"The celebrated English Historian, Lord Macaulay, when writing about our form of democratic government, said there were forces inherent in it which would eventually cause it to destroy itself. It would appear that on this question of inflation the matter will now be brought to a head. Perhaps Macaulay was right, time alone will tell, but for my part I am persuaded that he was wrong for I have faith in the intelligence of our people to make the right decision when they once understand the problem, otherwise I could not believe in democracy. No doubt we may get some further inflation, but I think it is not inevitable or going to be disastrous." (unquote).

The Agency Vice President of my company shows me from time to time PROBE magazine which says a lot of things well and briefly. Once a few months ago it said—"It is important that life insurance men recognize and stress factors which have proved themselves over and over again, year after year. No matter what inflationary figure the sceptics quote there is still no way of creating an immediate estate except through life insurance. There is every evidence that the great majority of people have found the so-called compulsory savings factor of life insurance the best guarantee of having dollars on hand when needed, whether they are stable, inflated or deflated. We recognize that some people will think this a specious argument. But, our own long experience with policyholders in low, middle, and high income brackets convinces us that it is and probably will continue to be our most valid claim for life insurance as a sound investment. The man who is going to take the difference and invest it in commodities or in more liquid securities seldom carries out his plan".

I want to close in a moment with a quotation from Mr. Graham Towers. The only speech he has made since giving up as Governor of the Bank of Canada is a speech on inflation. He chose a Life Insurance Underwriters gathering in Toronto and he chose that as the forum from which he gave what he regarded as a most important talk. He has refused to give any other talk since, and it is indicative of the value he put on it. I want to stress what it means to all of us and what we can do as consumers, because that was the theme that he came down on and he said—"In recent times leaders of government in the United States and the United Kingdom, to mention only two examples, have had occasion to appeal for restraint on the part of labour and business, labour in formulating its wage claims and business in raising prices. While such exhortations are not doubt useful in focusing public attention on the problem I doubt whether they have any immediate effect— How could they? In any specific negotiation labor leaders must get the most they can for their supporters; and a business, if it is going to survive, must strive for a satisfactory return on capital. It is only when the consumer cannot readily be saddled with increased costs that restraint must be observed —not as a result of exhortation but as a matter of necessity."

So the part we can do is to believe that inflation is not inevitable and say so and act accordingly. Advocate balanced government budgets. Resist wage demands in excess of productivity gains. The institution of life insurance in the United States and in Canada in its general advertising is stressing the anti-inflationary theme this year. It is devoting everything to it. Every Canadian bank and life insurance company and the American life insurance companies spoke out against it. The Chambers of Commerce are being very effective. And, gentlemen, it is my firm conviction that if eternal vigilance and unrelenting efforts are applied in these directions, the purchasing power of the Canadian dollar, and the free economy in which we live and thrive, can be saved and passed along to our children and grandchildren.

Thank you.

Second Session—Twenty-fourth Parliament

1959

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE
on the Threat of Inflation in Canada

No. 4

TUESDAY, JUNE 16, 1959

THE HONOURABLE CLARENCE V. EMERSON,
Chairman

WITNESSES

Mr. W. T. G. Hackett, Assistant General Manager, Bank of Montreal, representing The Canadian Bankers' Association. Mr. G. Arnold Hart, President, Bank of Montreal. Mr. Neil J. McKinnon, President, Canadian Bank of Commerce.

APPENDIX A

Submission by Mr. A. H. Cameron, of Saunders, Cameron Ltd., Toronto, Ont.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

THE STANDING COMMITTEE ON FINANCE

Chairman: The Honourable Clarence V. Emerson.

The Honourable Senators:

*Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Buchanan
Burchill
Campbell
Choquette
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Croll
Dupuis
Emerson
Euler
Farris
Fraser
Gershaw
Golding
Haig
Hayden
Higgins
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Power
Pratt
Quinn
Reid
Robertson
Roebuck
Savoie
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
Wall
White
Woodrow—(50)

**Ex officio* member

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, TUESDAY, April 28, 1959.

"Pursuant to the Order of the Day, the Senate resumed the postponed debate on the motion of the Honourable Senator Wall, seconded by the Honourable Senator Leonard:

That the Standing Committee on Finance be instructed to study the threat of inflation in Canada:

That the Committe have the authority to send for persons, papers and records, and to report from time to time.

After debate, and—

The question being put on the motion—

The Senate divided and the names being called they were taken down as follows:—

CONTENTS

The Honourable Senators

Baird,
Basha,
Beaubien,
Bois,
Boucher,
Bradette,
Connolly (*Halifax North*),
Connolly (*Ottawa West*),
Crerar,
Croll,
Dupuis,
Euler,
Farquhar,
Gershaw,
Golding,
Grant,
Hodges,
Hugessen,
Isnor,
Jodoin,
Lambert,
Lefrançois,
Leonard,
Macdonald,
McGrand,
Petten,
Pouliot,
Pratt,
Reid,
Robertson,
Roebuck,
Savoie,
Smith (*Kamloops*),
Smith (*Queens-Shelburne*),
Stambaugh,
Taylor (*Westmorland*),
Vaillancourt,
Veniot,
Wall,
Woodrow—40.

NON-CONTENTS

The Honourable Senators

Aseltine,
Brunt,
Buchanan,
Emerson,
Gladsone,
Haig,
Higgins,
Horner,
MacDonald,
Methot,
Pearson,
Quinn,
Sullivan,
White—14.

So it was resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, June 16, 1959.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.15 a.m.

Present: The Honourable Senators Emerson *Chairman,* Aseltine, Beaubien, Brunt, Burchill, Croll, Euler, Gershaw, Hayden, Higgins, Isnor, Lambert, Leonard, Power, Pratt, Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson, Turgeon, Wall and Woodrow—(21).

In attendance: The official Reporters of the Senate.

Consideration of the order of reference of April 28, 1959, was resumed.

On motion of the Honourable Senator Leonard, a brief submitted by Mr. A. H. Cameron, of Saunders, Cameron Ltd., Toronto, was ordered to be printed as Appendix A to these proceedings.

The following were heard:—

Mr. W. T. G. Hackett, Assistant General Manager, Bank of Montreal, representing The Canadian Bankers' Association.

Mr. G. Arnold Hart, President, Bank of Montreal.

Mr. Neil J. McKinnon, President, Canadian Bank of Commerce.

The further consideration of the order of reference was postponed.

At 12.30 p.m. the Committee adjourned until Thursday, June 18th instant, at 10.00 a.m.

Attest

John A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, Tuesday, June 16, 1959

EVIDENCE

The Standing Committee on Finance, which was instructed to study the threat of inflation in Canada, met this day at 10.15.

Senator EMERSON in the Chair.

The CHAIRMAN: Gentlemen, we have a quorum so I will call the meeting to order. Before calling the witnesses I have a few comments to make. A brief has been submitted by A. H. Cameron of Toronto who was invited to appear as a witness but was unable to do so because of prior commitments. Copies are available of his brief for the members of the committee and I would suggest that it be printed as an appendix to today's proceedings.

(*See Appendix A to today's proceedings*)

Hon. SENATORS: Agreed.

Senator CROLL: Who is Mr. Cameron?

The CHAIRMAN: He is an investment dealer of Saunders, Cameron Ltd., Toronto.

Dr. Deutsch will be in town again tomorrow and we will announce to the members of the Steering Committee when the next meeting of that committee will take place. The next meeting of the full Finance Committee will be held Thursday, June 18, at 10 a.m. in this room.

Senator LEONARD: That will be a change in time, to 10 o'clock.

The CHAIRMAN: That is right. On behalf of the members of the Finance Committee I would like to welcome here this morning Mr. W. T. G. Hackett, Assistant General Manager of the Bank of Montreal, and Mr. G. Arnold Hart, President of the Bank of Montreal, and Mr. Neil J. McKinnon, President of the Canadian Bank of Commerce. Without any further ado I will call on Mr. Hackett, who is going to present a brief on behalf of The Canadian Bankers' Association. Mr. Hackett will be available for a question and answer period when he has concluded presenting the brief.

Mr. W. T. G. HACKETT (*Assistant General Manager, Bank of Montreal*): Mr. Chairman and honourable senators, I should perhaps offer a word of explanation at the outset for my presence here. It is a matter of regret to me, as I am sure it will be to you, that the President of the Canadian Bankers' Association, Mr. H. W. Thomson, is ill and not able to be here to present this brief on behalf of the Association. I have undertaken to deputize at very short notice, and I am going to have to ask your indulgence on that account.

This brief, which I have the honour to submit, is in six rather short sections, and I shall indicate the title of each section as we proceed.

THE CHARTERED BANKS AND INFLATION

I. *The Purpose and Scope of this Statement*

The purpose of this statement is to present certain factual material about the influence of the banks on inflation, and the influence of inflation on the banks. It is intended as a contribution to the work of the Senate Committee on Finance, from a point of view that represents the concensus of the chartered banks. Questions of official Government policy have generally been avoided because it would not appear to be appropriate for the chartered banks as a group to enter the debate on most such matters even if they all were in full agreement.

There is one notable exception, however, to the general avoidance of policy matters. The chartered banks wish to state that they favour the conscientious use of monetary and fiscal measures for the promotion of the general interests of the community as a whole. Under certain circumstances this requires action that seriously inconveniences various particular interests in the short run. In what follows there are a number of passages that show that the chartered banks have little if any part in the decisions on these matters, and are themselves adversely affected by them just as are other sectors of the economy. Nevertheless these decisions must be taken from time to time by the authorities, even at the expense of unpopularity (which ought to prove temporary), and the chartered banks are fully prepared to co-operate even though they must share the unpopularity.

It must be acknowledged that these questions always involve an area of judgment, and that emergency situations may not leave much practical room for counsels of perfection. Nevertheless, the banks feel that the monetary and fiscal authorities are sometimes too reticent in acknowledging their responsibilities for their own policies, and do not do enough to make clear to the Canadian public why the policies being pursued are necessary and what are the advantages that may be expected to accrue from them. The result may be to impair the effectiveness of the measures themselves, and to prejudice the good relations between the banks and their customers.

II. *The Banks and the Money Supply*

However inflation be defined, it is often associated with an excessive supply of money. The Canadian money supply is usually considered to consist of deposits in the chartered banks and currency in public circulation and, since deposits are by far the larger of these two components, a review of the fundamental principles that govern the total amount of bank deposits is essential in understanding the position of the chartered banks in an inflationary environment.

It should be made clear at the outset that the determination of the total amount of Canadian deposits held by the banks lies entirely outside their discretion. The chartered banks are subject to general regulations and controls which make it impossible for them to bring about an expansion in total deposits, and they are equally unable to prevent a contraction. Control over the total amount of Canadian bank deposits is exercised by the Bank of Canada which, by varying the chartered banks' cash reserves, can cause the total amount of bank deposits to approximate closely whatever figure it deems appropriate. This control lies in a formula laid down in the Bank Act, whereby the chartered banks are required to keep a specified proportion, currently 8 per cent, of their Canadian deposit liabilities in the form of cash reserves consisting of notes of, and deposits with, the Bank of Canada.

It is mainly by means of its purchases and sales of securities in the open market that the central bank can, and does, alter the chartered banks' cash reserves. To contract bank cash, the Bank of Canada sells securities and receives cheques drawn on the chartered banks by the purchasers of the securities. The Bank of Canada presents these cheques to the various chartered banks for payment, and the banks make settlement by authorizing the Bank of Canada to deduct the amounts involved from the deposits maintained by the chartered banks with the Bank of Canada. And, since these deposits represent part of the legal cash reserves of the banks, a reduction means a loss of cash for the chartered banks. Similarly, to expand bank cash, the Bank of Canada buys securities, initiating a chain of circumstances the reverse of the above.

When their cash reserves are allowed to increase, the banks have the resources to expand their loans or purchase securities, and a rise in their deposits comes about as the funds involved are added to the deposits of those who borrow or those who sell securities. By contrast, when cash reserves are held more or less constant, or are reduced, the expansion of deposits is halted or reversed. Hence when variations occur in total Canadian bank deposits they reflect Bank of Canada policy, not discretionary acts by the chartered banks. Central bank action, not chartered bank action, determines the level of bank deposits in Canada and hence of the money supply.

III. *The Banks in a Monetary Expansion*

There are a number of possible circumstances in which the central bank might allow the money supply to expand so that the chartered banks would be able to meet all reasonable demands on them without immediate inconvenience. The most obvious example is when an easy money policy is being followed during a recession; in this case the expansion may be unexceptionable, and may have no inflationary implications for the time being at least.

An unchecked expansion of the money supply may also occur as a result of uncontrolled government deficits, under the pressure of a great war or other *force majeure,* as in the case of many historical inflations. In these circumstances the banks, on the one hand, find their deposits rising sharply and, on the other hand, find their assets expanding, not in the form of commercial loans but rather in the form of holdings of government obligations (often with yields set at artificially low levels). However, the decisions as to how large the government's deficit should be, how great should be the increase in the money supply, or how much of the deficit should be financed by purchases of government securities outside the banking system (which do not result in any monetary expansion) are not of the chartered banks' making. The banks simply become the residual absorbers of the amount of the government's deficit that the general public outside the banking system fails to finance by acquisition of additional securities.

Much the same results may occur if the public suffers a sudden change in its evaluation of the interest rate structure and becomes unwilling to hold bonds in quantity at current yields; as part of the process of adjusting to this changed situation, and finding a new level of bond prices and yields at which the public will again be willing to hold these securities, a considerable expansion of the money supply may be inevitable. Another possibility is that for one reason or another the monetary authorities may be required to peg the price of government bonds at par or some other arbitrary figure, as was the case in a number of countries for some years after 1945; a particularly well-publicized example accurred in the U.S.A., and was brought to an end by the Treasury-Federal Reserve accord in 1951. If a rising demand for money were

to develop in such a situation, anyone who owned bonds could easily sell them to the banks to raise cash. The banks in turn could readily resell them to the central bank in any amount they required to meet the loan demands of their customers. Control over the money supply would have been abrogated in favor of maintaining an arbitrary structure of bond prices.

While an easy money policy is usually associated with a business recession, it may happen that it is prolonged and encourages an inflationary expansion of private credit. For example, a capital investment boom may get under way, in which the combined capital requirements of industry, seeking to expand plant and equipment, are greater than the saving capacity of the economy as a whole. In such circumstances the banks are likely to be faced with an increasing number of requests for funds; in other words there will be a tendency to try to bridge the gap between the community's total capital requirements and the community's saving capacity by creating new bank credit.

From the standpoint of the chartered banks, as long as the expansion was permitted to proceed, they would find themselves with ample funds to meet borrowers' requirements. Their assets in the form of loans and their liabilities in the form of deposits would increase at a rapid rate. At first sight, this would appear to be an admirable situation from their point of view. However, once it became clear that inflationary pressures were building up, any banker would be increasingly concerned about the quality of the loan risks he was being asked to assume. He would also be concerned lest the pace of expansion, accompanied by a pyramiding of bank credit as too many claimants scrambled for control over a limited volume of physical resources, would sooner or later topple over into a severe business recession with attendant repercussions on both the banks and their customers. Thus while a credit boom permitted by the monetary authorities, and stemming principally from a demand for private credit, might appear to pose few problems for the banking system, it would in fact create important problems for the economy which bankers would have to share.

IV. *Banking Problems Caused by Efforts to Combat Inflation*

Typically, it may be assumed that the monetary authorities will endeavour to combat inflationary pressures once they become clearly apparent. In such a situation the chartered banks will find themselves as it were in the front-line trenches. While they do not make national monetary policy, such policy is quickly manifested in ways which compel important adjustments on the part of the banks.

More explicitly, when credit demand is rising and economic conditions are such that the central bank finds it necessary to keep the money supply at a relatively stable level, any significant increase in any one category of the banking system's assets must inevitably be offset by a decrease in some other category. If the banks wish to take care of a steadily rising demand for loans they must inevitably resort to selling their holdings of securities to approximately the same extent, otherwise their deposits will tend to rise and their ratio of cash to deposits would fall below the legal requirement.

If this process continues, the banks will ultimately reach the minimum amount of securities beyond which it would be neither practical nor desirable to indulge in further disinvestment. Each bank must hold a certain amount of easily disposable securities on which it can realize cash to meet a possible withdrawal of deposits or loss of deposits to other banks. In more technical terms, a bank requires the liquidity that only a well-balanced portfolio of short-term securities can provide; thus it cannot dispose of all its securities in order to expand its loans. In addition, conditions under which central

bank policy does not permit an expansion of loans without a sale of securities are typically conditions of declining bond prices and rising interest rates. Hence the sale of bonds involves progressively larger losses, and these losses, under the regulations governing the operation of the banking system, must be treated as an expense in the year in which they are incurred. At some point the cost of selling additional securities in order to make additional loans would simply become prohibitive.

But the banks will find themselves being forced to make difficult decisions long before they reach the point at which any significant expansion of loans can no longer take place. For one thing, they will be forced into the unpleasant position of having to tell good customers that their financing needs cannot be met. At first sight this may not appear to be any different from the normal operation of the banks, for there must always be a category of unsatisfied borrowers, and it is a bank's function to determine where the margin of credit-worthiness lies; apparently all that is required is that they should be a bit more selective. But a closer view will show that what is involved is much more difficult than that. In a normal business situation the credit-worthiness of a given borrower can be pretty clearly determined on the basis of reasonably objective criteria, such as the experience and character of the individual concerned, the nature of the enterprise to be financed, and so on. Furthermore it will generally be possible to meet in full all the reasonable demands of good credit-worthy borrowers. However, when serious inflationary pressures are at work it is simply not possible to meet all legitimate demands at once; each applicant's spending programme may be perfectly sound and credit-worthy in itself, but the physical resources of the economy or the financial resources available through the banks are not sufficient to carry them all out at one and the same time. In short, the banks are forced to adopt some kind of priority or rationing system for allocating credit. No matter how fairly their decisions may be made, there is bound to be resentment on the part of some customers with consequent damage to customer-bank relations and, unfortunately, adverse publicity for the banks.

In similar situations in other markets when the commodity dealt in becomes scarce, the price is allowed to rise as an impersonal means of rationing the supply and checking the demand. To some extent this occurs with bank loans—that is, interest rates rise, in response to forces that are more fully described in Section V. But in practice there may be little scope for this course of action because of the maximum of six per cent set by the Bank Act on the rate of interest or discount that the banks may charge. Indeed, since interest rates outside the banking system are free to rise without limit, and in the past few years have shown a tendency to move up so that the general structure of rates is out of line with the banks' six per cent ceiling, there is a tendency for demands that would normally be financed in other ways to be directed into the banks. This further aggravates the credit situation and leads the central bank to put even greater pressure on bank reserves. Thus the credit restrictions bear heavily on the working capital needs of businessmen, which are best serviced by the chartered banks. Indeed the middle-sized and small businessman has virtually no other source of funds, even if he is able and willing to pay the high interest rates or other costs generally exacted by non-bank lenders. It may fairly be said that the banks will make special efforts to look after the requirements of these borrowers, but the fact remains that their inability to tap other sources together with the fact that credit restrictions apply more directly to bank lending than to other sources of credit puts these borrowers at a disadvantage when money is tight.

Thus it is apparent that problems become a good deal more immediate for the banks, and more obvious to the general public, under conditions wherein the national monetary authorities are making a valiant effort to

contain inflation as compared with a situation in which monetary expansion is allowed to proceed unchecked. But the banks would be inconsistent indeed, as well as unworthy of the degree of public confidence which they enjoy, if after publicly drawing attention to the dangers of inflation they were then loudly to complain of the cost, the inconvenience, the hard decisions, and the unpopularity which devolve upon them as a result of a national monetary policy designed to achieve for Canada the very great advantages of a sound and stable currency.

V. *The Banks and Interest Rates*

An active national monetary policy designed to check inflation almost inevitably involves rising interest rates, and the central bank is faced with a fundamental choice. If it wishes to control the supply of money when demand for credit is expanding, then it must face the fact that interest rates are almost certain to rise along a broad front. If it wishes to hold interest rates down under these same circumstances, then it must allow new money to come into existence and thus must modify its efforts to contain the inflationary threat.

It is basic to an effort to contain inflation that the supply of money must be deliberately restricted at a time when the demand for funds is increasing. It has already been pointed out that in such circumstances the banks are sellers of securities. Some holders outside the banking system may also be sellers of securities to realize funds that they can no longer borrow. This combination of forces involves selling pressure on the bond market declining bond prices, and therefore rising interest rates. The situation is aggravated to the extent that new security issues must be priced to produce yields fully competitive with those already available in the market.

The same basic factors operative in respect of market rates of interest must also influence the rates of interest on bank loans. The banks have the problem of allocating scarce loanable resources among creditworthy borrowers. An increase in the price of credit, i.e. the interest rates charged by the banks, is one way, but not necessarily the only way, in which scarce credit resources are allocated. It may be noted, however, that increases in the banking system's lending rates usually follow, and do not anticipate, increases in the general level of market rates. Also, as already noted, the banks may have very little leeway for this course of action because of the six per cent maximum set by the Bank Act on the rate of interest or discount that the banks may charge.

A further factor contributing to interest rate charges has been the growing awareness among the businessmen and investors of the basic monetary changes that may be expected during the course of a business cycle. Expectation has added to response as an important element in the bond market and also in the demand for bank loans. This factor of expectation, or anticipation, has tended to hasten and accentuate changes that might otherwise be expected to occur in a more gradual and orderly way. For example, when borrowers anticipate greater difficulty in satisfying their financial requirements they accelerate their borrowing, thus tending to force the banks to sell securities in larger amounts than might otherwise be necessary. Also, other large holders of securities contribute to a weakening of the bond market and to a rise in market interest rates by selling in anticipation of a continuing fall in security prices. Both these forms of anticipatory action tend, if anything, to exaggerate or intensify the swings in market rates of interest and in the demand for credit. If at the same time the government has

to sell additional securities to finance a deficit, the market is subjected to further pressure.

It might be mentioned at this juncture that the banks can sedom take advantage of the high market yields from government and other securities which become available under tight-money conditions. While others may make attractive investments in the bond market, sometimes with funds borrowed from the banks under prior commitments, the banks for their part are typically sellers of securities, not buyers.

These are some of the forces that make for higher interest rates under conditions wherein efforts are being made to contain inflation. It lies within the power of the central monetary authorities to combat these forces, but only at the cost of increasing the money supply. Thus, to the Bank of Canada falls the difficult choice of deciding whether to permit higher interest rates or a larger money supply. And this choice in turn depends on an appraisal of a very complex balance of forces. Whatever that choice may be, the chartered banks must accommodate themselves and their policies to national policies as best they can.

VI. *The Impact of Inflation on Banking*

Enough has been said to indicate that the adaptation required of the chartered banks in the face either of inflation or of a policy to contain inflation is by no means easy. But in addition, an environment in which fear of inflation or creeping inflation is a factor in the decisions of businesses and individuals may interfere with the normal and necessary functioning of the chartered banks. It is a truism worth repeating that good banking depends on the confidence of the public in their banks. And confidence in banks is directly related to confidence in the purchasing power of money. Inflation destroys the environment in which such confidence flourishes. Banking relations are strongest when uncertainty and doubt about the value of money are absent.

It may be argued that some industries or interests, and indeed some individuals, may in one way or another benefit on baalnce from inflation. It is very difficult to see any advantages that accrue to the banks in this respect. While the immediate consequences of overly rapid monetary expansion might, at a very superficial glance, seem to pose few problems for the banks, closer scrutiny indicates that very real difficulties are involved. Moreover, action to check and possibly to counteract the expansion gives rise to very difficult banking problems indeed. As has already been made clear, the banks have no quarrel with, and indeed are fully in support of, official restrictive action that may be necessary to prevent excessive monetary expansion. Like all other responsible interests in the community, the banks have a major and continuing interest in the balanced growth of the Canadian economy. The banks realize, too, that they can best do their job of serving the community by meeting its essential needs in accordance with their accumulated experience and judgment under conditions of a healthy rate of economic growth with stable prices. If the Canadian economy does not fare soundly and well in the future, the chartered banks will share with others in the resultant misfortune. It is in the interests of the chartered banks, then, that all goes well with the Canadian economy, and it is this combination of reasonable self-interest and genuine concern for the well-being of the nation that has prompted the presentation of this statement.

The CHAIRMAN: Thank you very much, Mr. Hackett. If the honourable senators would like to ask Mr. Hackett questions I understand he will be glad to hear them.

Senator LEONARD: Mr. Chairman, in the brief Mr. Hackett refers to the question of the maximum rate of interest set by the Bank Act at 6 per cent.

When you have a situation where monetary policy is directed towards containing the supply of money and, consequently, higher interest rates as a whole, does that maximum rate fixed by statute on the general loans of banks interfere with the carrying out of the general policy which creates the higher interest rates throughout all other structures of the economy?

Mr. HACKETT: Well, sir, I think I would endeavour to answer that question in this way, that a policy designed to contain inflation is, I think, by definition, a policy in which the money supply is being held level while, at the same time, the demand for money is increasing. That situation almost inevitably and inescapably gives rise to higher market interest rates as determined by the play of supply and demand in the market. One could, I think, conceivably run into some very anomalous situations, and I use for purposes of illustration an extreme example, if, let us say, the interest rate on 91-day Treasury Bills were to get to 6 per cent, and the interest rate on bank loans were to remain at 6 per cent. One would in such circumstances get a very complicated and confusing situation indeed. Certainly, I think that the ceiling on the rate of interest as it applies to the banks would have this important effect, that within the framework of a monetary policy designed to keep the supply of money stable it would in such circumstances become increasingly difficult and increasingly costly and, indeed, prohibitive for the banks to liquidate securities take the capital loss involved, and attempt to replace that with a loan at 6 per cent. Shall we say, sir, that the ceiling does, I think, inhibit the action of the banks or power of the banks to look after credit requirements that could otherwise be looked after within the framework of a generally restrictive policy.

Senator LEONARD: Might it be better if the maximum bank rate related to the general interest rate structure or, say, the Dominion of Canada interest rates rather than a fixed maximum of 6 per cent which might have been appropriate in the days when the Government of Canada bond rates were on a 3 per cent basis?

Mr. HACKETT: I would answer that this way, sir, that under rather passive conditions, conditions of not much change in the economy, I do not think that point becomes too important. But immediately one gets into conditions of pressure on the economy in either direction, to hold one rate steady by statute or by other means in relation to a situation in which other rates are becoming increasing fluid, does create a lot of distortions. They are almost legion in their complexity.

Senator LEONARD: There is no such maximum rate in the United Kingdom or the United States, is there?

Mr. HACKETT: I do not believe so.

Senator LEONARD: Thank you.

Senator WALL: I wonder if I may ask a question with respect to the top of page 11 of your brief? I may be wrong in the inference I am drawing. Is it the considered judgment that a carefully-designed, scientifically-formulated, national monetary policy could be the primary instrument with which other inflationary forces could be contained in an economy? Is that the general assumption I might draw from this? Is that the primary instance?

Mr. HACKETT: I think, Senator Wall, that monetary policy can do a great deal to that end but I would be the last person to suggest that a monetary policy could be a general cure-all for an inflationary situation. The point is that monetary policy and fiscal policy must mesh together. A very difficult situation could arise if they were working in opposite directions. Historically that situation has arisen in other countries. There was some reference to that in this brief. Even, however, with the most favourable situation that one

could imagine from the standpoint of monetary policy and fiscal policy working together, there are still other factors that enter into the picture. One factor, in the case of Canada particularly, is what is happening in other countries, and particularly in the country to the south of us with which our relations are so close. There is another factor also which is extremely difficult to evaluate and control, and that is the factor of public expectation. Public expectation of an inflationary trend can be a very troublesome factor in endeavouring to control the inflationary trend itself. I would agree, however, that public expectation or general expectation of inflation is much less likely to arise when it is apparent that fiscal policy and monetary policy are working together in an endeavour to contain inflation, and also when the public are well advised as to the reasons underlying such policy and the advantages that may be expected to accrue.

Senator WALL: I was going to ask the converse to this, if I may, with respect. My knowledge of economics is simple but there is a basic economic equation which I would phrase this way: that monetary supply times the velocity equals the other factors.

Mr. HACKETT: That is right.

Senator WALL: And there is a limit to the velocity of money that probably can be attained in any economy, and therefore if you maintain strict control over the monetary supply *per se*, that would have a tremendous impact upon any other factors that are on the other side of the equation.

Mr. HACKETT: I would agree with you, sir, and I would agree also that there are limits to which an increase in velocity can, shall we say, offset the effects of a stable money supply. The only point I would add sir, is that the power to maintain stability of the money supply becomes greatly prejudiced and may indeed prove impossible if at the same time fiscal policy results in significant additions to the Government debt that cannot for one reason or another be readily financed by the saving capacity of the public as a whole.

Senator LEONARD: Mr. Hackett, are you there not tying fiscal policy into the supply of money, and fiscal policy then operates to increase the supply of money?

Mr. HACKETT: That is precisely what I am endeavouring to do. I regard the two as going hand in hand.

Senator LEONARD: And they are the major factors really contained in inflation or promoting inflation, are they not,—the major factors?

Mr. HACKETT: I would say they are very major factors, and they are the major factors that lie within the realm of control by Government. There are other factors which lie outside the practical powers of Government to influence.

Senator LEONARD: The other factors such as wages, exports, imports, prices, and so on, cannot operate very effectively independent of the fiscal and monetary policies, is that correct?

Mr. HACKETT: Shall we say, sir, that they can modify efforts being made at the official level to control inflation. One could imagine circumstances under which the modification might be major, but generally speaking, I would agree that given a sufficiently strong fiscal and monetary policy these other factors might, in other circumstances, be considered relatively minor. I would put it this way, that in due course they could hardly withstand the weight of a strong official monetary policy.

Senator LEONARD: Would you care to venture an opinion from the standpoint of hindsight, looking back to 1945, as to whether or not we have perhaps erred on the side of increasing our supply of money over that period at perhaps too great a rate.

Mr. HACKETT: Senator Leonard, hindsight is a wonderful thing. In my opinion this is one of those 'iffy' questions to which I do not think any very useful answer can be given because we can never know what would have happened had some other policy been adopted. I think about as far as I am prepared to go is this, that at the end of the war there was in this country considerable concern that the economy might be headed for post-war recession. I think we may all recall the spate of documentation, some of it official, some of it semi-official, that had as its objective ways and means of counteracting a post-war recession. It was a fear that was not realized; the post-war recession never came. I think for some years also there was a fear that if it had not come this year it was perhaps coming next year; there was a sort of annual pessimism in Canadian business pronouncements, "that we did well this year, but maybe next year is the year recession is going to occur." I think that, without benefit of hindsight official monetary policy may possibly have shared in the general environment and shared in the general desire to follow a monetary policy that would encourage Canadian economic expansion. It may have been that it was overdone. But I think however it would be an extremely difficult thesis to maintain with any certitude.

Senator BURCHILL: To revert to the question that Senator Leonard asked at the start, about the ceiling on bank interest rates, your reply as I took it was to the effect that it would have affected the operations of the banks. Now, how would it affect, or would it have any effect in assisting the banks in a time of national policy for the containment of inflation; that is, if the ceiling were more flexible, what effect would it have in assisting the national policy in containing inflation?

Mr. HACKETT: Well, sir, one of the points that was emphasized in this brief was that while chartered banks operate in an environment created by national policy, they do not make national policy. It is in no spirit of an attempt to avoid this question, sir, that I answer it this way. I would like myself to hear the views of those responsible for national monetary policy on that point. I have no very dogmatic views on the subject except that I do think, as I have already mentioned, that the stickiness of any one rate in the rate structure does possibly limit and impair adjustments that might otherwise take place more easily. I am not being very dogmatic about this—principally because it leads me into a field of national monetary policy with which I am not too closely familiar.

Senator BRUNT: I wonder if the witness is acquainted with a Government publication entitled "Employment and Income, With Special Reference To The Initial Period of Reconstruction"? This paper was published and presented to Parliament by the Minister of Reconstruction in April 1945?

Mr. HACKETT: It awakens a vague recollection in my memory. Was it the "White Paper", so called?

Senator BRUNT: Yes, in 1945.

Mr. HACKETT: I remember reading it carefully at the time. I would not be sure I could recall it now.

Senator BRUNT: I wondered if the witness was well enough acquainted with the publication to indicate if in his opinion the policy as outlined therein was inflationary?

Mr. HACKETT: I am under the disability, senator, of speaking about a publication that I have not seen now for a good many years; I have not had an opportunity to review it.

Senator BRUNT: Unless you are well enough acquainted with the document, I am not asking you to give any opinion at all.

Mr. HACKETT: From my recollection of the document itself, and as I recall it, I would suggest that the objective of the policy outlined in that paper was in relation to the expectations of the time—perhaps anti-deflationary rather than inflationary. As I recall it, that paper outlined a course of action designed to combat and to counteract and anticipate a post-war recession. It was not alone in that. There were any number of plans official and unofficial all aimed at the same objective, which in the event turned out to be not as anticipated.

Senator BRUNT: Are we at present in a period of tight money or semi-tight money, in your opinion?

Mr. HACKETT: At the present time we are in a period in which, since about the end of October, the supply of money has been held virtually stable after a considerable increase in the supply of money that occurred in 1958. The increase that occurred in 1958, which was of the order of 14 or 15 per cent, was not the result of an increase in demand for private credit, but was a direct result of the exigencies of the fiscal situation at that time. Demand for private credit was pretty well stable throughout that period. Commencing about the end of October, while the supply of money has been held stable, the demand for private credit has been increasing at a fairly rapid rate. In those circumstances, I would define a situation in which supply of money is being held level and in which demand for credit is increasing rapidly as a situation in which money is tight in relation to demand.

Senator BRUNT: Then would you tell me why the banks are expanding their field for loaning money when you run into a situation like that?

Mr. HACKETT: I don't know that the banks are expanding their field for loaning money. There was a statement made by the president of the Canadian Bankers' Association, the then president, I should say, a month or six weeks ago, which indicated that the banks were under the necessity of scrutinizing loan applications very carefully. I do think that the banks have been making some modifications in their techniques of lending money, with a view particularly to looking after the requirements of the small borrower and with a view to seeing, in so far as may be possible, that the adjustments required of him are of the minimum possible proportion.

Senator BRUNT: By small borrower, do you mean the small commercial borrower, the small industrialist?

Mr. HACKETT: I would add to that category the small personal borrower as well.

Senator BRUNT: Then I cannot understand why you are expanding your operations in the personal loan field in a situation where we have tight money. Now, there are two examples of two banks doing that; one is the Bank of Nova Scotia, which has set up this new system of an account, a borrower has a special account whereby it makes it easier to get personal loans, and that bank is really going after the personal loan business. I do not like to embarrass the witness, but the other bank is the Bank of Montreal, and only last week that bank made quite an announcement of the fact that they are going to expand their operation in the personal loan field. As I said, I cannot understand why banks are expanding into the field of lending money that way in a situation where we have tight money.

Mr. HACKETT: In replying to that, Senator Brunt, I would say first, that since the Bank of Montreal is mentioned, we have been in the personal loan field for very many years.

Senator BRUNT: Not under the name of such.

Mr. HACKETT: We have advertised personal loans for very many years. We have made a great many of them. As to the economics of the matter,

which I presume is the point that you are really raising here, I think it might be suggested that we are in a situation in this country of still rather serious unemployment. Anything that would enable the small borrower to finance legitimate requirements, that he would be financing anyhow, if not through the banking system somewhere else, if that kind of a program can be incorporated into the banking system, within the framework of an overall operation which may involve some restriction to credit in respect of other and perhaps less desirable objectives, then I do not think the national economy is, on balance, the loser from that kind of a process.

Senator BRUNT: Is this policy going to cut down the amount of money that is going to be available for the small manufacturer, for the small commercial business, with resulting unemployment there?

Mr. HACKETT: I would certainly not expect that to be the result. It might conceivably cut down loans made perhaps for purposes that might be desirable under a different set of conditions but which under present conditions are loans of a speculative nature.

Senator SMITH (*Queens-Shelburne*): Mr. Hackett, is it not a fact that in entering so earnestly into this personal loan field you might be taking away from some loan companies the lending of money that is now being borrowed by people who have been borrowing from loan companies and paying much higher rates of interest than the banks can make a profit on. In other words, this business that you might get through your new venture is not new business at all but is business that you are taking away from some of these loan companies, about which many of us have been concerned for some years.

Mr. HACKETT: I do not know that we are taking away business from anyone. I think what has been going on has been a change in technique in relation to a volume of business that has been going on for a considerable number of years.

Senator SMITH (*Queens-Shelburne*): Is it not so that some of the loan companies have been borrowing money from the banks to finance their own loans to borrowers?

Mr. HACKETT: That is on the record, Senator Smith, I believe in the quarterly statement of classification of loans; finance company borrowings from the banks is shown as a separate head.

Senator SMITH (*Queens-Shelburne*): Then, of course, to the extent that you lend money, people might not, for instance, go to these loan companies to borrow, and so there is no new lending of money involved and therefore you are not restricting the amount of money you have available for small business.

Mr. HACKETT: If the situation were to work out that way, that would be a conclusion that could be drawn.

Senator ISNOR: Mr. Chairman, Senators Brunt and Smith pursued the same line of thought which I had in mind to bring out, but before coming to that I do want to make a suggestion, Mr. Chairman, for our future meetings.

We have before us a carefully and well-prepared 14-page brief. I do not know just how long it took the persons involved to prepare this brief, but certainly it was not a matter of minutes nor hours. I think we should have briefs of this nature placed before us prior to the meetings, and I am going to suggest that in future those appearing before us in the case of such important bodies as the Canadian Bankers Association forward to you sufficient copies to distribute to the members of this committee. I might say that that is not my personal idea, it originated with Senator Smith and I want to give him credit for it.

The CHAIRMAN: I will bring that to the attention of steering committee immediately, Senator Isnor.

Senator ISNOR: Now, Mr. Chairman, my question follows along very closely to the ideas expressed by both Senators Brunt and Smith.

Mr. Hackett, would you turn to page 10, to the last two lines of the first paragraph of your brief. You are dealing there with the middle-sized and small businessman in his borrowings and then you make the statement, "...credit restrictions apply more directly to bank lending than to other sources of credit puts these borrowers at a disadvantage when money is tight." You say it is now tight of course. That question was answered about a minute ago to a question put by Senator Leonard. We are in a tight money market at the present time, I would judge.

Would you enlarge, Mr. Hackett, on what you have in mind when you say so far as other sources are concerned?

Mr. HACKETT: Well, Senator Isnor, I think that the point that this brief endeavours to make here is that there are some borrowers who have alternative sources of credit available to them. Let us take the case, for example, of a large corporate borrower. In any tight money situation it has a number of things that it can do outside the facilities of the banking system as such. It can seek funds through the securities market in Canada; it can conceivably seek money through the securities market in the United States; it can seek funds through the facilities of the short-term money market; it can sell securities it may have, it can use its own sources of self-generated funds. I think those are most of the alternatives that are open to it.

The point simply is that the smaller borrower just does not have that same variety of courses of action at its disposal.

Senator ISNOR: Thank you, Mr. Hackett. In other words, larger types of financial institutions can borrow from one another, if they have surplus on hand?

Mr. HACKETT: I think that is true.

Senator ISNOR: Therefore a smaller businessman is at a disadvantage, in so far as that type of borrowing is concerned.

Mr. HACKETT: His flexibility of action is much more limited, I think.

Senator ISNOR: I do not know what Senator Brunt had in mind, but I am in agreement with the present action taken by banks to expand or enlarge their facilities for the small borrower. I have in mind the home builders and others who have to go to the banks for borrowing purposes.

Senator BRUNT: I wanted to know the reason why they were expanding.

Senator ISNOR: I am glad to hear that, and I hope that all banks will continue to expand their borrowing facilities. As a small businessman, I am interested in the small man who has to expand and borrow for good purposes.

I have one more question, Mr. Chairman. Notwithstanding the markets, the banks last year all made a pretty fair showing. I remember Mr. Diefenbaker said they made the largest net earnings they had made for many years. If that is so, why is it that they cannot carry on their lending in the same manner as they did in the period 1945-55? Would Mr. Hackett enlarge on his answer to cover this question; is it true that the banks hold, or more or less are obliged to purchase or take up, a large portion of the recent conversion loan, and for that reason they find themselves somewhat handicapped in respect to lending?

Mr. HACKETT: Mr. Senator, this brief has dealt with the limitations that apply to the banks under conditions of tight money. It has been brought out I think, that when the money supply is being held level, any significant increase in the loans of the chartered banks must inevitably be accompanied

by a decrease in the security holdings of the chartered banks. It so happens that sale of securities at prices considerably lower than book value does result in incurring substantial losses, which must be considered as an expense in the year in which those losses are taken. Undoubtedly in such circumstances the question of cost of liquidation of securities does become one factor in the decision as to how long that can go on.

I would like to make two other points, however, one of which is this: I rather imagine that if sheer profitability were the only thing concerned, the banks would probably cease making loans and cease selling securities a good deal earlier in the process than they actually do. I think it a fair statement however, that banks will go a very long way in taking losses on sale of securities in order to meet the legitimate demands of their clients, because that is what banks are in business for, to meet the demands of their clients in so far as they possibly can.

The other point I would make, however, is that, regardless of the cost of selling securities you do sooner or later get to a point where you just cannot afford, from the standpoint of sound banking and maintenance of sound reserve requirements, to have fewer short-term Government of Canada bonds than you have; and even if the cost factor were not in the picture, you would run into the question of a proper proportion.

Senator LAMBERT: But you are really not in control of that situation, judging from your earlier remarks. The Bank of Canada, by some measuring stick determines how much money should be circulated.

Mr. HACKETT: The Bank of Canada is in control of the money supply. The adjustment that each bank makes in its appraisals of that situation is a matter which each individual bank has to determine.

Senator HAYDEN: You are in control of your investments?

Mr. HACKETT: Yes. Those are our decisions, what investments we shall sell, how much loss we are prepared to take—

Senator BRUNT: And what you should buy?

Mr. HACKETT: And what we should buy.

Senator LEONARD: And you have to keep in mind your liquidity situation, your relationship between securities and your demands?

Mr. HACKETT: That is essential to the banking process.

Senator LEONARD: There is some ratio between your liquid securities and your liabilities, which you wish to maintain. So, at some stage or other you must not reduce your liquidity further, is that right?

Mr. HACKETT: That is right, sir.

Senator BRUNT: Each bank has its own formula for that?

Senator LAMBERT: Mr. Chairman, the witness earlier in his statement intimated that chartered banks are in the front line dealing with demands of the public, while the central Bank of Canada seems to stand in the background with some kind of measuring rod to determine the extent to which money circulation and supply should be regulated. We have heard a good deal about the monetary theory of economics in the past 10 years, particularly since the end of the last war. We are all pretty well acquainted with the statement of the very able man who was for many years the custodian of the finances in this country, Mr. Clark, that "what is physically possible should be financially possible".

In view of that, one wonders just where the initiative of development action lies in this country. The chartered banks, as the witness has stated, meets the demands from individuals and groups first who think they foresee the possibility of profitable investment in a reproductive enterprise. If this is

so does not the judgment of those providing financial credit for such undertakings rest largely in the measure of correct assessment given to the economic soundness of the project in question as well as the reputed ability of the personnel involved?

In so far as the Bank of Canada has the check or balancing of such developments through money supply—I am just trying to follow consequentially your thought in this matter—is that your judgment in your position of being in reality placed on the opposite side of the table from those who think they know and see potentially profitable ventures ahead?

In other words, in discussing this whole question of inflation I still have to be shown the line of demarcation between what might be called a sound economic form of development in this country, and one which suggests an excessive circulation of money and an excessive valuation or overcapitalization of our possibilities which thus brings about this horrible picture of inflation. Where can you draw the line between the two things, and is monetary fear an effective type of thing in relation to economic development?

Mr. HACKETT: Senator, the very profound question you have put is one that, perhaps, might more usefully be directed to a central banker than to a commercial banker. I think, in so far as I am able, I would not so much as answer your question but, perhaps, think aloud along the lines you have suggested.

Senator LAMBERT: May I say first that I might have been too long, but your assertion that the chartered banks were in the front line of meeting the problem and, therefore, have probably a better opportunity than anyone else to judge the quality and soundness of the projects for development that come forward, brought this question to my mind. Am I right in that assumption?

Mr. HACKETT: I would comment in this way, sir. The central bank has, as I understand it, as its primary responsibility the regulation of the total amount of money available to the Canadian economy. To use an analogy, I suppose one could say they are the wholesalers of money. They determine the wholesale supply. The chartered banks are in the position of having, as it were, to retail the supply made available to them. It is not the function of the central bank, as I understand it—and I am quite sure it has never claimed that function—to suggest to the chartered banks directly or indirectly specifically how they should allocate or distribute the resources at their disposal. The chartered banks in their turn, do not create the demand for loans. The demand has to start elsewhere outside the banking system, but they are continually faced with the problem, which is their business, of apraising the credit-worthiness of such demands as reach them.

I think I should add this, sir, that there are certain kinds of inflationary situations wherein, because of the inherent buoyancy of business outlook, the banks are confronted with a great many demands for loans, where each request is made with enthusiasm, and where, because of the overall monetary policy, it is just not possible for the banking system to make them all. In those circumstances I think the banks have to allocate such funds as they have at their disposal and intelligently and as equitably as they can.

Senator EULER: Mr. Chairman, if the question is answered may I ask just this simple question? It is not a profound question such as the one given by my honourable friend. We have heard this committee is appointed to study the threat of inflation. I have also heard it said that there is no inflation at all. I would like your opinion as to whether we have inflation, or, maybe, the threat of inflation.

Senator THORVALDSON: Why not add to that? The third one: Is there any threat of inflation at the present time?

Senator EULER: That is what I asked.

Mr. HACKETT: Mr. Chairman, I would think that any situation wherein the supply of money had increased by 14 or 15 or 16 per cent in a single year is a situation that, at least, should put us on grave notice that a threat of inflation exists. I would add that at the present time there are a number of characteristics of active, immediate and present inflation which do not seem to be present. For example, there is a measure of unemployment in this country. There is excess industrial capacity in a good many directions. Perhaps, paradoxically, there is also a pretty widespread fear of inflation. Personally, I do not think it is as intense or as severe as it was at this time last year because a number of things have happened in the meantime which might suggest some abatement of inflationary pressures.

Senator SMITH (*Queens-Shelburne*): What are those things, Mr. Hackett? Would you mind naming one or two?

Mr. HACKETT: The first and, I think most obvious thing, sir, is that the money supply has ceased to increase. It has been stable now for more than six months. The second point I would mention is that the federal budget is closer to balance than it was at this time last year. The third point I would make is that there has been in the past six months quite an encouraging absorption of Government debt outside the banking system. Those three things are quite important.

The CHAIRMAN: Just a minute, Senator Wall. We have another witness here, and the hour is getting late. I would suggest that we hear the next witness.

Senator WALL: This is a quickie.

Senator BRUNT: None of yours are quickies.

The CHAIRMAN: Go ahead, Senator Wall.

Senator WALL: I would like to preface my question by saying that perhaps it will deserve the same reservation that was accorded by Mr. Hackett with respect to the question of the 6 per cent statutory limitation on the bank rate. On page 3, Mr. Hackett, you mention the formula of control laid down in the Bank Act whereby chartered banks are required to keep 8 per cent of their deposit liabilities in the form of cash reserves. Would you care to comment on the effectiveness of this formula in view of the public interest banks have in maintaining price stability? Is that formula adequate? Has it worked well? Will it work well if it is properly applied?

Mr. HACKETT: In my opinion, sir it is extremely effective, very effective indeed.

The CHAIRMAN: Before you leave I would like to ask one question myself. In the bank reports which you receive from branches across the country do your local managers tell you that people are getting disturbed over inflation? Are they unduly disturbed or alarmed over it? Are they talking about it to any extent?

Mr. HACKETT: I would answer that by saying it would be strange indeed if, with all that has been said about inflation both in Canada and elsewhere in the last two or three years, there were not considerable concern over inflation and where it is going to end. I should add, as I think I have already said, that fear in my opinion has abated significantly in recent months for the reasons I have already outlined.

The CHAIRMAN: Thank you very much, Mr. Hackett. I will now call upon Mr. G. Arnold Hart, President of the Bank of Montreal.

Mr. G. ARNOLD HART (*President, Bank of Montreal*): Mr. Chairman and honourable senators, while I am indeed honoured to be invited to appear before this Committee today, I come here with a very real sense of my own limitations

from the standpoint of a useful contribution to the subject engaging your attention. I am not an economist and I therefore think it well not to try to talk like one. My observations, therefore, will be from the standpoint of a Canadian citizen, who happens to be a banker, interested in his country's orderly and stable economic growth.

I do not propose to take up your time by dwelling on the evils of inflation. These, I think, we all recognize. I might perhaps say, however, that in my opinion the expectation of inflation has consequences which in one way or another can be about as dangerous as inflation itself. From the standpoint of a banker it has been rather alarming, in the past two years or so, to observe the extent to which public attitudes and, in some respects, business decisions have tended to be influenced by the assumption that creeping inflation is inevitable and that it is possibly the price that has to be paid for economic growth.

I admit that, looking back over a long period of time one might well assume that a gradual erosion of the value of the dollar is indeed inevitable. But I have sometimes wondered whether that conclusion has not been reached by simply comparing today's price level with the price level prevailing 25, 50 or 100 years ago and averaging out the intervening change on a per annum basis. From such reading of economic history as I have done it does appear that there have been long periods of time characterized by both stable prices and a very satisfactory rate of economic growth. The inflationary damage seems to have been done rather by sporadic periods of rapidly rising prices. I mention this particularly because it seems to be a point on which the research work being done as a part of your enquiry might throw some very useful light.

If indeed it is a fact that the doctrine of inevitable creeping inflation cannot stand up in the light of history, I can think of no better time than now to bring this fact clearly to the attention of the Canadian public. If such information did nothing else it might flash a warning signal to a great many people today who think they are making prudent provision for the future by means which in one way or another may really be speculative.

Turning now to recent developments, one question that comes to the mind of a layman like myself is, of course, "How serious is the inflationary threat at this time?" Here, I would only suggest that the evidence is not all one-sided. There have been times, the war years were one, and the boom period of 1955-1957 was another, when one could, I think, recognize the inflationary danger pretty clearly in terms of an economy fully employed from the standpoint of human and material resources. In such a situation the creation of additional purchasing power could do little else than push prices higher. In the war years, of course, the additional purchasing power was being created but the effect on prices was checked by price controls and we got the inevitable upward adjustment later on. Looking at the present situation, however, such an analysis hardly seems to fit. Our resources are not fully employed. Unemployment, albeit diminishing, is still a serious problem. Very many of our industries have a problem of excess capacity. The public does not seem to be in the mood for a spending spree. Indeed, the rate of saving has recently been extraordinarily and encouragingly high. These factors, in combination, do not seem to add up to an inflationary threat.

The other side of the story is, of course, that we did last year, and indeed from about mid-1957, experience an alarmingly rapid increase in the money supply in this country without anything like a concurrent expansion in the production of goods and services. According to the last Annual Report of the Governor of the Bank of Canada, the increase in the money supply between July 1957 and October 1958 was no less than 15%, a rate of increase which, in the words of the Governor, "was substantially greater than would have been necessary or desirable for monetary and economic reasons alone, but

was, I believe, justified and unavoidable in order that a strenuous and successful effort might be made to deal with serious problems affecting the financing of the Government's cash deficit and the condition of the public debt." Without going into details, which are in any event on the record, it may be said that this increase in the money supply resulted almost wholly from the financing through the banking system, i.e., by purchases by the central bank and the chartered banks, of Government of Canada securities. In other words, the monetary expansion stemmed from a concomitant increase in the Federal Government's borrowing requirements. Indeed, the banking system, in effect, not only had to finance the Government's cash deficit but also had to pick up a sizable amount of bonds from the general public who at that time were reducing rather than adding to their holdings of Government obligations.

Without labouring this further, the important point is, I think, that the basic cause of the rapid monetary expansion was fiscal. Its cause did not lie to any significant extent in a boom in the demands of the private sector of the economy on the banking system. Indeed, from mid-1957 through to October 1958 the loans of the chartered banks plus their holdings of mortgages and non-federal government securities stood virtually level. I am not arguing that this increase in the Government's financial requirements was unnecessary or undesirable particularly in view of the depressed business conditions prevailing at the time, but the fact remains that the situation did give rise to a widespread fear of inflation.

With the money supply rising at a rapid pace it was only natural that a great many thinking people were wondering just where this trend was going to end. The whole picture was complicated by the decline in bond prices and the consequent rise in market interest rates that commenced in about mid-1958. A similar development was occurring in the United States, and for basically the same reasons, but here again we must face the fact that, to quote from the last Annual Report of the Governor of the Bank of Canada, "the increase in the money supply was much greater in Canada than in the United States but in both countries this development was also taken in investment circles as holding an inflationary threat."

I should quickly add that since last October there has been virtually no increase in the money supply. Within this period also we have had a Federal Budget which forecasts a significant reduction in the Government's borrowing requirements this year. Concurrently also, there has been a most encouraging absorption of government debt by the public outside the banking system, although it must be said that there seems to be as yet not much disposition on the part of the public to hold long-term bonds. These influences, by and large, add up, in my opinion, to a situation wherein the Canadian dollar is a sounder and better dollar than it was a year ago, and I think that the growing realization of this has gone a good way towards allaying at least some of the more extravagant fears of inflation.

Commencing around the end of last October, however, there has been a substantial increase in the credit requirements of the private sector of the economy, and since the end of October chartered banks' holdings of loans, mortgages and non-federal government securities have risen by 14%. Against the background of an official monetary policy which has not permitted any increase in the over-all supply of money, the banking system has been faced with the necessity of disposing of a very sizable amount of their holdings of Government of Canada bonds in order to look after the requirements of their borrowing customers. These bonds have had to be sold at progressively lower prices and there is no doubt in my mind that the pressure of these sales on the market has been a primary factor in the general and substantial rise in the level of market interest rates not only in respect of Federal Government

obligations but all other market obligations as well. As the President of The Canadian Bankers' Association recently pointed out, there are practical limits to such a process of disinvestment and the inevitable outcome is that the banks now have to adopt a much more cautious and selective credit policy than would otherwise have been the case.

It is, I think, a fair assumption that the policy of the national monetary authorities is aimed, for the time being, at stabilization of the money supply in order to contain the inflationary threat inherent in the large increase that immediately preceded the present phase. May I say at once that I have no quarrel with this objective. It must be recognized, however, that any situation wherein the supply of money is being held level and wherein at the same time the demand for money is increasing, is a situation directly conductive to scarcity of money *in relation to demand*, and also to high rising interest rates on a broad front. In other words, and I would emphasize this, the scarcity of money in relation to demand, together with the high price of money, are both an inevitable result of a monetary policy pursued by the national monetary authorities in the national interest. I think this point needs emphasizing if only because of what seems to be a pretty widespread belief that low interest rates are "normal, and a good thing" while high interest rates are "abnormal, and a bad thing."

To speak bluntly, I suggest that public understanding of the nature of the present problem would be greatly improved, with advantage to all concerned, if there were less of a tendency to apologize for, or to attempt to explain away the basic reason for, the present levels of interest rates. I believe there is need for a frank admission that the present interest rate structure is an inevitable consequence of a national monetary policy pursued in the national interest. Under present circumstances our central bank is faced with a fundamental choice. The central bank has the power to influence the level of interest rates, but at this juncture the only way the level of interest rates could be lowered would be by making money more plentiful, thereby adding to the inflationary danger. I think it would let a lot of light and fresh air into public and private discussions of monetary matters if those responsible for present monetary policies could explain more fully, to the Canadian people, the nature of the basic issues involved. Monetary policy to be as effective as it ever can be, must not only be intelligent, it must also be intelligible.

If I may digress for a moment, I think something was lost on the score of intelligibility when just over two and one-half years ago the Bank of Canada's rediscount rate was put on a "floating" basis, the rate thenceforward becoming .25% above the average weekly tender rate for 91-day treasury bills. Admittedly, this move had certain technical advantages, the principal one being that the rediscount rate was always automatically above the treasury bill rate and, therefore, always a penalty rate. In this way the new method did away with former recurrent periods of uncertainty when, for one reason or another, the treasury bill rate got above the rediscount rate. But on the other hand, we have lost, under the new procedure, the value of a change in the rediscount rate as an important signal from the central bank to the money market. The rediscount rate now, is something that "just happens" and is devoid of any significance as an indication of official monetary policy. I suggest that we could have the best of both worlds if we were to retain the floating rate, but if the central bank were on occasion to intervene by varying the spread between the bill rate and the rediscount rate. The spread could be widened when the Bank of Canada wished to "signal" a phase of increased monetary stringency, and conversely, could be narrowed to indicate monetary ease.

In reverting now to broader considerations, I would suggest that a policy of holding the money supply level in the face of an increasing demand for

money with the inevitable consequence of rising interest rates (and I can think of no better definition of this than a tight money policy) is not in itself sovereign remedy for an inflationary threat. It is in the nature of such a policy that, sooner or later, it inhibits the ability of the banks to lend and increases the rates which they must charge for their accommodation. Within these limits the banks must do the best they can to allocate as intelligently as possible the resources at their disposal. I would be the last to claim, however, that within these limits the banks only make "non-inflationary loans". I think most banks try to avoid, under these conditions, loans that come obviously within this category. Certainly we do try, and very conscientiously, to look after the requirements of credit-worthy borrowers who cannot obtain their credit needs anywhere else. We also make a very deliberate effort to look after small borrowers. But I would emphasize that the impact of scarce money can never be precisely evaluated and in any event goes a long way beyond the banking system. Large corporate borrowers for example, have access to the securities market. It is quite true that under present conditions their borrowing rates are high. But since interest is an expense, about half the increase is absorbed by the corporate tax rate. On the other hand, provincial and municipal borrowers have to bear the full brunt of increased interest costs. It would seem to follow therefore that both the cost and deterrent effect of high interest rates impinge most severely upon the field of "social capital"; and it is just in this area that a great many needs are least readily postponable.

Another aspect of the matter is that the present situation of credit stringency appears to be driving a considerable amount of corporate borrowing outside the banking system through the technique of the sale of short-term paper from one corporation to another, usually with an investment dealer as an intermediary. This, I suppose is inevitable in the present situation, but it does suggest that we have growing up in Canada something in the nature of a "phantom banking system" not directly responsive to central bank influence.

Another important "by-product" of a tight money situation is the increasing incentive on the part of Canadian borrowers to endeavour to escape the rigours of the Canadian rate structure by resort to the New York market. Over the long run such borrowers assume an important exchange risk and they do not really know what their money is costing them until the last instalment of principal is paid off and the last interest coupon cashed. In the short run the proceeds of the U.S. funds obtained by such borrowing have to be converted into Canadian dollars with a consequent upward pressure on the Canadian dollar in relation to U.S. funds. The result is that the premium on the Canadian dollar is higher than it would otherwise be and the competitive position of Canadian exports consequently impaired.

Finally, our national monetary authorities are faced with the all-important question of timing. At what stage does a monetary policy involving restricted credit and dear money begin unduly to inhibit the business recovery that we all wish to foster, and, by inhibiting the business recovery, impair the flow of governmental revenues upon which the budget estimates are based? I do not know the answer to this question, and I have nothing but sympathy for those in authority who have to make the difficult and courageous decisions that an attempt to answer it involves.

But because monetary policy has obvious limitations is, of course, no reason why it should not be applied. The point I would like to stress however, is that monetary policy in the sense of regulation of the money supply, and fiscal policy in the sense of control of the Government deficit, must go hand in hand. If for example, one could envisage a situation where, by reason of fiscal policy, the market were continually being called upon to absorb more government securities than it would take, an attempt to control inflation via interest rates alone would sooner or later break down under its own weight. High

interest rates could conceivably turn a business recovery into a business recession, and furthermore, we could reach a point where the prevailing rates on government securities would no longer be an attraction to investors but would be rather a warning signal. We come inescapably to the conclusion that in so far as government can act effectively to control or mitigate an inflationary threat, the basic and final remedy must be a fiscal remedy. In this respect may I say at once that I think a long step was taken in this necessary direction in this year's Budget. But there is still some distance to go, and anyone concerned with the inflationary threat in Canada must have welcomed the recent statement by the Minister of Finance that an orderly program of debt retirement is one of the Government's objectives. It, of course, goes without saying that the implementation of such a program will also involve hard decisions and the willingness and ability to tell the Canadian public that in the interests of a stable dollar there are some things that government just cannot afford.

No one would argue that governmental measures alone, whether taken by the Government itself or by the central bank, can effectively cope with the threat of inflation. And to my mind perhaps one of the most encouraging factors in the present situation is the growing realization in Canada that we are in serious danger of becoming a relatively high cost economy. Not only do we see this reflected in our competitive position in export markets but we are also beginning to face competition in our own market, emanating from countries which some years ago we may have been prone to consider rather backward and inefficient in their methods. The effect of such competition in the sense of orders lost and lost job opportunities that would otherwise have been available, is something that any thinking Canadian can readily understand whether he be an employee or an employer.

I sometimes think that in recent years our fascinated preoccupation with our brilliant long-term economic future has rather dulled our immediate realization that this future is not guaranteed; it is there if we can achieve it step by step and day by day. And it is my hope that the very urgency of the inflationary threat will be resolved not only by courageous governmental policy and equally courageous governmental explanation of the issues at stake, but also by the intelligent appreciation of the Canadian public that inflation is everybody's concern. In plain words, inflation is something we just cannot afford, and our own self-interest requires the acceptance of the collective self-discipline that will be essential if we are to avoid it.

The CHAIRMAN: Thank you, Mr. Hart, for this very interesting brief.

Honourable senators, the meeting is now open for questions.

Senator HIGGINS: Mr. Hart, you said you were not an economist, and I must say that I am not either.

Do you agree that banks are very careful as to the loans that they make?

Mr. HART: Yes, I do.

Senator HIGGINS: Before making a loan they must see a reasonable prospect of being repaid to them?

Mr. HART: Yes, I would agree to that.

Senator HIGGINS: And they do not generally encourage people to borrow, in fact they try to discourage unnecessary borrowing. That is right, is it not?

Mr. HART: I think banks would encourage borrowing where it is for the benefit of the community.

Senator HIGGINS: But I am referring to ordinary borrowing. I would like to inquire as to what effect the operations of all these loan companies have on the financial structure at the present time. There are an enormous number of loan companies now, aren't there?

Mr. HART: Yes.

Senator HIGGINS: And these companies encourage people to borrow to buy television sets and so on, and they advertise that they are williing to make loans from $125 to $500. Would you say that there is very little inquiry made by these loan companies as to whether the borrower can pay back the loans?

Mr. HART: Well, Senator Higgins, I would not like to make that broad statement. I think each finance company or bank, whatever the source of the funds may be, is going to be prudent enough that they will ensure that any loan made will be repaid.

Senator HIGGINS: There must be an enormous amount of borrowing from these loan companies?

Mr. HART: Yes.

Senator HIGGINS: And that must bring about a great amount of spending in the buying of luxuries such as television sets and motorcars, with the result that when a person buys a motorcar, for instance, he pays a much higher price than the cost price through incurring heavy interest and other charges on the borrowing he does.

Mr. HART: Well, relevant to the price of cars, I suppose the interest content is not too much?

Senator HIGGINS: And the finance companies must charge heavy interest —as much as 20 per cent?

Mr. HART: It varies, yes.

Senator HIGGINS: What effect does this enormous amount of borrowing for the purpose of buying goods which people cannot presently afford have on the economy? They buy commodities that are ordinarily regarded as luxuries.

Mr. HART: Senator, I think we are living in an age, not only in this country, but in other countries, where purchasing on credit has become the accepted thing—everybody does it.

Senator HIGGINS: The banks are wonderful institutions: I don't know how they are able to manage on 6 per cent and accomodate the small borrower with all the trouble of making up interest, and above all, of allowing him to pay off interest at any time, which the loan companies do not allow. In the case of loan companies if you pay off your loan at an early date, you must pay interest in some cases for two or three years. So, I say the banks are wonderful public institutions.

In former days you went to the bank to borrow and gave a note back only when you really needed to buy something. It was not for the purpose of buying luxuries. You paid the bank 6 per cent, the interest was calculated, and there was very little trouble. But today people have motor cars and tv's, with little prospect of ever paying for them.

Mr. HART: One thing it does, senator, is increase the demand for consumer goods and the marketability of those goods.

Senator HIGGINS: Is it a good thing that people should buy goods they cannot presently afford?

Mr. HART: I would not put it that way. There may be some people who are borrowing without any prospect of repayment. I think that is where the banks have to be prudent, and to inquire as to the purpose for which the money is required, and secondly, to see that the borrower has a steady income and is in a position to repay. He wishes to have his motor car or his television now and to enjoy them, and to extend his payments of them into the future. I don't see anything wrong in that, unless he gets too deep in financial obligations.

Senator HIGGINS: In other words, inquiry should be made by the loan companies to make sure that the borrower does not get in too deeply.

Mr. HART: I am not saying that the loan companies do not make inquiries as to the ability of the borrower to repay. I am not a loan company representative.

Senator PRATT: May I say to Senator Higgins that the loan companies in Canada first of all require a tremendous amount of detail to be handled for their particular type of operation. As has been pointed out, the extension of credit is part of our way of life today, and if that credit were denied the public on any general scale throughout Canada, you would have a widespread close down of industry and curtailment of business throughout the country. The principle is there, and it has to continue.

Senator HIGGINS: Most of the time one can go down to a store in St. John's and buy on credit without being charged any interest . . .

Senator LEONARD: Mr. Chairman, time is running along, and I am wondering if we are going to be able to give Mr. McKinnon an opportunity to speak.

Senator SMITH (*Queens-Shelburne*): Mr. Chairman, may I refer to page 3 of the brief, about the alarmingly rapid increase in money supply in this country without anything like concurrent expansion of goods and services. My question is: over the war years and in the post-war period, has there always been a rather close relationship between the expansion of money supply and the gross national product?

Mr. HART: I think there should be, Senator Smith.

Senator SMITH (*Queens-Shelburne*): Has there been?

Mr. HART: Yes, I would say there has been in a fair degree.

Senator SMITH (*Queens-Shelburne*): On that basis, with the projected increase forecast for this year of 7 per cent, should we not expect an increase money supply of 7 per cent, or are we already too high, and should just try to hold the line?

Mr. HART: I think you have answered your own question, Senator Smith. There was such a large increase in money supply last year, when G.N.P. did not rise to that extent, that we should not permit an increase to that extent for this year.

Senator SMITH (*Queens-Shelburne*): I wanted my answer confirmed by a professional.

Mr. HART: I am not a professional.

Senator THORVALDSON: In other words, we are catching up?

Mr. HART: We are catching up.

Senator WALL: Senator Leonard has suggested that Mr. McKinnon might want to add a few words.

The CHAIRMAN: Have you something to add, Mr. McKinnon?

Mr. NEIL J. MCKINNON (*President, Canadian Bank of Commerce*): Mr. Chairman, I have nothing to add. Knowing that a brief was to be prepared by and presented by the Canadian Bankers' Association, and that Mr. Hart would be presenting a brief, I purposely did not prepare one, as there tends to be a degree of duplication.

The CHAIRMAN: Mr. Hart, you were talking about exports from this country. Are we pricing ourselves out of the export market today, due to the fast rising cost of living?

Mr. HART: I think, Senator Emerson, we are in serious danger of pricing ourselves out of the market, but I would not say at the present moment we have priced ourselves out.

The CHAIRMAN: The cost of living—or should I say the standard of living—is not increasing in other countries as fast as it is here?

Mr. HART: The standard of living is increasing.

The CHAIRMAN: As fast as in Canada?

Mr. HART: I would not say as fast. But a country like Germany has a very good standard of living.

The CHAIRMAN: The Singer Sewing Machine Company, for instance, found they could not meet the competition here. They went to Japan, built a plant there, build their machines there and send them back here.

Mr. HART: Yes, and that affects our employment figures.

Senator SMITH (*Queens-Shelburne*): Mr. Hart, it seems to me that for several years we used to read of frequent consultations between central bank authorities and the heads of the chartered banks, before any change in money policy was involved between the Government and the Bank of Canada. Has that arrangement ceased? We no longer hear of any of these consultations.

Mr. HART: No, it has not ceased. We do have consultations from time to time.

Senator SMITH (*Queens-Shelburne*): We do not read accounts in the newspaper that such and such a situation is going to cause tight money. Now the bankers themselves are taking complete responsibility. You are the people who make the public pronouncement on these things. I wondered whether there had been any real change, or whether you have been forced into the position of taking more than your share of the burden?

Mr. HART: That is why I endeavoured in my brief to make clear that I think there should be some official pronouncement as to the reason why we are in this situation, and why the inevitable result comes about. The banks have, I think, and quite rightly so, taken their proper place in the community and have endeavoured to voice their opinion. But after all, that is not the official opinion.

Senator SMITH (*Queens-Shelburne*): Is it not true that previous governments have steered clear of taking on some responsibility, and perhaps allow the public to become informed in a little different way?

Mr. HART: That could be.

Senator WALL: Mr. Hart, on page 3 of your brief you were pointing to some of the positive signs that the present situation is being tempered as far as inflation is concerned; among them, you said:

> Indeed, the rate of saving has recently been extraordinarily and encouragingly high.

The question I would like to pose arises out of Senator Higgins' comment about the increase in the consumer credit which probably would counterbalance some of this savings in an indirect way. Is this increase you are talking about in gross terms or can we relate it to some bench marks. In other words, it will be diluted by the increase in the price or the devaluation of the money. If I save $100 more now it does not mean as much as it would have meant if I had saved $100 three or five years ago, and it would be affected by the number of Canadians who are saving, and so on. Is this a per capita basis, or is it related to some bench mark?

Mr. HART: While it is not a per capita basis, it is a gross term in relation to income.

Senator ISNOR: Mr. Chairman, can Mr. Hart tell us as to whether there was a change in the interest rate or bank rate 15 or so years ago?

Mr. HART: It was 7 per cent.

Senator Isnor: In what year was that change?

Mr. Hart: 1944.

Senator Leonard: Mr. Chairman, I would like to hear from Mr. McKinnon. He has come here, and we asked him to come here.

Mr. Neil J. McKinnon (*President, Canadian Bank of Commerce*): Mr. Chairman and honourable senators, as I mentioned earlier, and perhaps all of you did not hear me, the brief was to be presented by the Canadian Bankers' Association, and knowing that all the banks had co-operated in the preparation of that brief, and also knowing that Mr. Hart was to present the brief on behalf of himself and his bank, I did not prepare a brief because inevitably it would have involved a reiteration and repetition, and I felt that no particularly good service would be done.

The Chairman: On some future date before we close these hearings perhaps—

Some hon. Senators: Let him go on.

Mr. McKinnon: I have nothing further to say. I think the Canadian Banker's Association brief represents the views of the banks. If there are any questions I would be glad to answer them, of course—or, attempt to.

Senator Brunt: Mr. McKinnon, I just want to get a formal answer to this, if I can: Do you think by the banks expanding their lending in the personal loan field it is going to cut down on the amount of money which is going to be available for the small manufacturer or the small merchant? Do not think for a minute that I am opposed to personal loans, because I am not.

Mr. McKinnon: I think it is fair to say that all banks have been lending in the personal loan field for many years. Our own institution went into it much more prominently in 1956. We did a volume business in that year, and we anticipate it will continue to grow, but we do not think it will have any individual bearing in the sense of restricting credit to any one class of borrowers. I think under these conditions which we are now facing all classes of borrowers will not be able to borrow as much money as they want to.

Senator Brunt: In other words, you do not think you will be expanding unduly in the personal loan field?

Senator Aseltine: That is, in the small loan field? I understand the Canadian Bank of Commerce has been in that field for some years.

Mr. McKinnon: We do not plan to expand in that particular field, speaking for my own bank, but we are aware of a large and increasing demand for money within the nation, and the supply is being held constant, so there will not be enough to go around to satisfy everyone.

Senator Lambert: Do the banks lend money to lending corporations such as Household Finance Corporation?

Mr. McKinnon: Do I understand your question to be: Do the banks lend large sums of money to lending companies?

Senator Lambert: Well, whatever the size of the loans are. We have had representations before our committee—not this committee, but another committee—in connection with small loan bills. They finance through the banks, I presume, and not entirely on their own?

Mr. McKinnon: That is true. Those companies do borrow from the banks.

Senator Lambert: Would they represent a large percentage of the small loan activity in the banks today?

Mr. McKinnon: No.

Senator Lambert: Are they directed through individual banks, or would they be directed through such organizations as I have mentioned?

Mr. McKinnon: I have not the figures, sir, at my finger tips here, but if you aggregate all the loans to individuals by all banks then they are considerably larger than the loans from the banks to these companies.

Senator Thorvaldson: On that point, Mr. McKinnon, would it not be correct to say that most of the capital of lending companies is obtained through the sale of debentures and bonds and long-term securities of that kind, and a small amount of loan capital would be obtained from the banks?

Mr. Hart: All the finance companies, of course, do obtain capital on the public market by capital stock issues and debenture issues, and they also borrow from banks.

Senator Smith (*Queens-Shelburne*): You will probably remember, as the other gentlemen here will, that during tight money policies there has been a widespread opinion held in the Maritime provinces, for example, that they may suffer from a tight money policy and restricted loans more than other regions of Canada. In view of the lower economic activity there they feel that they should have a chance to expand, let us say, in the pulp industry, and that a tight money policy and the rationing of credit restricts the development of the underdeveloped parts of Canada, and that the bankers as a whole should view their loan requirements in a different light from the light of the average struck across the whole country. Have the banks given any consideration to taking action to dissipate to some extent that feeling which we have at the present time in their lending policies?

Mr. McKinnon: I was not aware that such a feeling did exist. One thing I can say is that I assure you, certainly so far as my own institution is concerned, and I think this is true of all banks operating in the Maritimes, that there has been no thought of lending to any less extent there than in other parts of Canada. In other words, the creditworthy borrower has just as much consideration there as in any other part of Canada.

Senator Smith (*Queens-Shelburne*): What I have said was said much better by the Premier of New Brunswick. He referred to it as castor oil treatment. It was good for the country as a whole, but it detracted from the developing process which was starting down there. What you are saying is that there is nothing the banks can do about it. They can only treat all their customers alike across the country, and they will not have consideration for the special needs of the underdeveloped parts of the country?

Mr. McKinnon: The banks are quite fair in their administration of credit. Because a man lives in one part of the country as against another part of the country does not give him the right to any preferential treatment. It would be a difficult thing for a bank to discriminate, and we endeavour not to do so. We think it is for the good of every part of the nation to treat every creditworthy borrower alike, wherever he may be.

Senator Wall: I wonder if I could ask you to comment on the suggestion of Mr. Hart concerning the Bank of Canada's discount rate which is now on a floating basis, and that a change might be desirable to a new procedure to act as a warning signal. I think you know the context in which I am asking the question?

Mr. McKinnon: Yes, I am aware of it.

Senator Wall: Would you agree with that suggestion? Is that a fair question to ask?

Senator Brunt: No, it is not a fair question.

The Chairman: I do not think it is too fair. If Mr. McKinnon does not wish to answer it then he does not need to.

Mr. McKinnon: I think that is for the Bank of Canada to cover.

Senator Isnor: I am interested in the question put by Senator Smith in connection with the Maritimes, and I want to draw to the attenion of Mr. Hackett, Mr. Hart and Mr. McKinnon that in 1945 or 1946 there was an across-the-board deduction in the amount of credit that could be obtained. If I remember correctly, they said a man who wanted to borrow $200,000 would be granted 60 per cent of that.

Senator Brunt: That was not my experience.

Senator Isnor: There was a directive sent out by all the banks across the country in so far as future credits were concerned. Do you recall that?

Mr. McKinnon: Mr. Chairman and honourable senators, my recollection is directly contrary to that. There was no attempt to reduce the general broad level of borrowers at the time. What did happen was there was a large increase in the demand for money but there was no increase in the supply, and therefore the ability of the borrowers to borrow money was limited, and that condition exists today.

Senator Isnor: If I remember rightly it was in February, 1945, that a directive went out restricting bank loans, and later the directive was withdrawn in so far as defence contracts were concerned. It affected the Maritimes to a greater extent than it did the rest of Canada, particularly the large contractors in Quebec and Ontario. I am just asking you gentlemen to remember in dealing with the Maritimes to be a little more generous.

Mr. McKinnon: I don't believe that condition existed.

The Chairman: On behalf of the members of the Finance Committee, and other honourable senators present, I wish to thank our distinguished witnesses for appearing before this committee today and presenting their excellent briefs.

Whereupon the committee adjourned.

Appendix A

SUBMISSION TO THE COMMITTEE OF THE CANADIAN SENATE, INVESTIGATING THE THREAT OF INFLATION

CONTENTS

I. Preamble.
II. The Premise: Official Policy for the Past Quarter Century has sometimes given priority to objectives other than the Maintenance of Stable Prices.
  (a) General Philosophy and the Dilemma of Central Banks.
  (b) Pre-War Years, 1935-9
  (c) Early War Years, 1939-40
  (d) Later War Years, 1941-45
  (e) Post War Years, The Korean War, 1946-53
  (f) The 1953-4 Recession, Recovery, the 1955-7 Boom.
  (g) July 1957 to Date, Government Deficit Finance, The Inflationary Outlook for 1959-61.
III. The Creeping Inflationists.
IV. More Serious Inflations.
V. Savings, Investments, The Capital Market and Inflation, Interest Rates.
VI. Possible Steps to Prevent Inflation For the Future.
  (a) Government Budgets
  (b) The Bank of Canada
  (c) The Money Supply
  (d) Housing, an Inflationary Force 1954-58
  (e) The People and Parliament.

A. H. CAMERON

June 1, 1959.

Mr. Chairman and Honourable Members of the Senate:

I regard the invitation to make a submission to this body as a privilege, as you are the first Canadian Parliamentary Group specifically charged with the investigation of a disease which has halved the value of a dollar in two generations.

If you can isolate the causes of this malignancy, and enlighten the public, we can hope for some self-discipline on the part of those whose actions are feeding the disease. The pressure of enlightened public opinion will help.

I hope your Committee's report will be made available to all Canadians. I hope you will every year examine our economy, pointing out trends tending to add to inflationary pressures. Such a permanent "Watching brief", with access to the research facilities of DBS and Bank of Canada would be of small cost compared to the annual inflationary erosion of savings. In 1958 Canadian Life Insurance alone lost perhaps $900 million in buying power.

Technically it is possible to define inflation simply as the creation of enlarged stocks of money. Since, by popular belief, however, inflation involves rising prices, you can expect arguments suggesting that rising prices necessitated a larger money supply, or that the larger money supply caused the rising prices. Perhaps Dr. Paul Einzig's double-headed formula is a good definition: (A)

> "Inflation is an expansionary trend of purchasing power that tends to cause, or to be the effect of, an increase in the price level."

(A) "Inflation" by Paul Einzig. Chatto & Windus, London, 1952, page 17.

THE PREMISE:

Official Policy for the Past Quarter Century has sometimes given Priority to Objectives other than the Maintenance of Stability of Prices.

I believe that, for a quarter century, we have been using money as a tool to accomplish various worthy objectives, and in the process we have often neglected to pay enough attention to money itself, its soundness and its buying power.

We have placed strains on a capital market which had evolved under prior assumptions of a stable dollar, and in endeavouring to offset the shortcomings which developed in the capital market, we have further contributed to inflationary pressures. If we continue our course, tinkering with the capital market mechanism, perhaps regimenting it, trying to suppress inflationary results rather than causes, we may have some temporary success, but eventually we will have an inflationary boom. We then will have a following depression, as serious or more so, than the 1930-33 period.

It is popular to blame Keynes for much of our inflation. I believe that Keynes' "General Theory" contained much which was designed to cure the deflation of the 1930s, but which is inappropriate for the expanding 1940s and 1950s. Keynes, had he lived, might indeed have wished to change his title from "General" to "Specific" Theory. Raymond Moley, in News Week, May 18th, 1959, remarks:

> Keynes favoured spending for its own sake in the depression decade. But his ignorance of politics failed to teach him that once spending was exalted as government policy, politics would carry on in better times. The sorcerer failed to reckon on his apprentices. They could open the spigot but never could close it.

Bluntly, we have created additions to money supply faster than we have added to physical production. Prices have risen, partly because of the extra money, and the extra money is partly because of higher prices. We have, through monetary and fiscal policy, pushed a growing Canadian economy at the expense of a stable dollar.

That we have not run into serious trouble is perhaps less a tribute to our wisdom than to our good luck. Co-incident U.S. inflation, the wartime devastation of a Europe which was also inflating, has so far favoured our export trade. Now a re-juvenated Europe, its own inflation under better control, is giving us stiff competition at home and abroad. Our most recent monetary expansion is largely the result of government deficit finance. (See page 4, 1958 Bank of Canada Report).

The familiar argument is that we need more money supply, just as a growing poker game needs more chips. In most poker games the players must pay for their chips, in advance, and we would not tolerate one player getting chips, at will, ad infinitum by tendering IOU'S. This is the advantage which sovereign governments enjoy when they sell new securities to Central or Commercial banks. This is how our money supply has been enlarged since 1957. As David Kilgour, President of the Great West Life, remarked in a speech to the Annual Meeting of the Life Insurance Advertisers Association in Montreal, October 24, 1958:

> It is a bit like sitting in a poker game where unbought chips are being fed into the game.

Most of us have to work or save to obtain our funds. If we borrow—we must repay. The *continued* existence of a national debt means that if it initially created new money—that money may remain outstanding as long as the debt does.

Organized labour can obtain wage increases, exceeding productivity increases, and the entire wage scale tends to rise, even the wages of those in the service industries whose productivity may not rise at all. Corporation with oligopoly positions can "administer" prices, passing on increased costs of all kinds, with a "markup" as well.

I believe that neither labour nor industry could constantly obtain these increases unless there was a sufficiently large money supply to finance production at the new, increased prices. As prices rose, with the existing, constant, money supply, the velocity of money circulation would need to increase to handle total production at the higher prices. There are physical limits as to how much velocity could increase.

When the physical limits of increased velocity are reached, increased prices, for both labour and goods, can only be supported by two eventualities—more money supply, or—lower production and lower employment. Competition for the available money would also have raised interest rates, tending to brake the economy.

Several times since the war we have arrived at situations which required a decision. Sometimes we increased the money supply, enabling production to continue and expand at the new, higher prices. Sometimes we had decreased production and employment first and we have deliberately increased the money supply to restore economic activity to the former level. We currently see rising production, rising demand for money, rising interest rates, with prices somewhat higher than when recession began.

Money supply is about 15.7% above the July 1957 pre-recession level, yet it is allegedly scarce. We have in prospect higher prices, greater demand for money, with higher interest rates tending to brake the trend, if there is no further increase in money supply.

Some contend, I believe correctly, that if the economy knows it will get a certain monetary injection, during a recession, all economic behaviour will be based upon this anticipation. Thus a higher than expected dose of new money would be necessary to have the positive effect desired upon business. This would mean higher and higher degrees of monetary expansion in the early stages of each recession, creating larger and larger amounts of inflationary tinder to catch fire during the recovery.

Some might blame the "money managers", the Bank of Canada and Federal Reserve Board for the past quarter century's rise in both money supply and prices. Bank of Canada's 1957 (page 23) mentions our underestimate of the dynamism of the post-war western economy. Like most of us, their initial worry was apparently of a post-war depression.

Money management, since the end of the Gold Standard, is a relatively new art, involving both known quantities of goods and money, less reliable measures of money velocity, and unpredictable quirks in public psychology. North America has been fortunate in the moderation of our inflation, excluding that caused by the World and Korean Wars. Our way of life is relatively intact, and the money managers deserve much of the credit, as well as some of the blame.

Since 1957, however, a new cause of monetary expansion, peacetime massive government deficits, has become evident. It has been accompanied by policies designed to stimulate the economy, and what appear to be permanent expansions of programs of social services and subsidies. Even a balanced budget would not eliminate the inflationary pressure caused by government substantially enlarging its share of Gross National Product.

Central Banks have trouble offsetting the full inflationary effect of rising levels of government expenditure, especially when they involve deficits and monetary expansion. Central Banks, creatures of government, do not determine

the fiscal policies of their creator. More government spending is either desired by the people and supplied by government, or it is "sold" by government to the people, as their "right" or "need" during elections. While Central Bank objectives may stress "sound money", steps in this direction may be offset by government fiscal policy.

As the Honourable Douglas Abbott once remarked: (A)

> The Bank of Canada is charged with the responsibility of issuing or exercising supervision over the monetary requirements of the nation: and... until Parliament sees fit to change the Bank of Canada Act... that statutory responsibility remains upon the Governor... and... the directors. But as I said in the House, when speaking about this question, the operations of the Bank of Canada in that field can be significantly influenced by the fiscal policy of the government; and if you have a government engaging in large scale deficit financing, the most competent operations of a central bank would be largely frustrated...

The last twenty five years, divided into periods, some of which overlap, demonstrate that World War II was the initial contributor to inflation. Hindsight suggests the postwar "cheap money policy" was too "easy", for the accompanying levels of budgetary surpluses. Less "cheap money" or larger surpluses would have meant a less "liquid economy" to greet the Korean War. This hindsight also tells us that we would have better offset inflationary pressures if we had been able to foresee the exchange inflow of 1950.

More recently however we resorted to deliberate monetary expansion, partly from Parliament lowering the chartered bank reserve ratios, perhaps to fight the 1953-54 recession. Bank of Canada soon had to change its policy and fight inflation.

By August, 1957, signs of recession prompted a return to monetary expansion, and most important, there was soon a large, deliberate government cash budget deficit, which compelled even more monetary expansion in 1958, which, Mr. Coyne remarks: (B)

> "was substantially greater than would have been necessary or desirable for monetary and economic reasons alone, but was, I believe, justified and unavoidable in order that a strenuous and successful effort might be made to deal with serious problems affecting the financing of the Government's cash deficit and the condition of the public debt."

It is my contention that the principal inflationary forces extant today are the high level of governmental expenditures, the evident efforts to stimulate the economy by the deliberate running of deficits, and the monetary expansion inherent in both.

It is both difficult and unpalatable to change the tax structure in a hurry, when the economy has recovered from the recession which justified deficits, so that it can produce the surpluses appropriate to recovery. This is the trouble with cyclical budgetary theory. When we carry deficits forward into periods when theory dictates a planned surplus, and finance them by monetary expansion, we are inviting inflation.

May I review the past quarter century, divided into periods, with a minimum of statistical data, for you will no doubt have access to the extensive facilities of the Bank of Canada Statistical and Research Departments.

Pre-War, 1935-39

Little fear of inflation existed when the Bank of Canada opened in 1935, for, although the dept of the depression was past, there was still a high level

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(A) House of Commons Banking & Currency Committee Report, 1954, page 492.
(B) Bank of Canada Report, 1958, page 4.

of unemployment, and surplus plant capacity. The cost of living index, based upon 1935-39 equals 100, showed 1929 at 121.7 contrasting with 1932 at 99, and 1937 at 101.2.

Efforts to stimulate recovery by an easy money policy helped bank deposits rise from $1,955 millions in 1932 to $2,382 millions in 1937, barely above 1929's $2,293 millions. (Source: Bank of Canada Statistical Summary, October, 1949.)

Keynes did not publish his "General Theory" until January 1936, yet some of his ideas may have penetrated Canadian monetary thinking. Keynes' biographer, Roy Harrod (A) states that Keynes' thinking was influenced greatly by a paper entitled "Home Investment and Unemployment", written by Richard Kahn for the "Economic Journal" in June 1931.

Following dollar devaluation, the U. S. set out to restore prosperity by deliberate deficits; that for fiscal 1934 being $3.6 billion, about 6% of GNP, and similar deficits characterized 1935-6-7. Estimated average 1933 unemployment was 12.8 million, in 1934 11.3 million, and in 1938, after declines in 1935-6-7, it returned to 10.4 million (B). We in Canada did somewhat better with more modest deficits.

Early War Years, 1939-40.

Monetary expansion, as soon as war broke out, supplied funds to government, and stimulated the use of available slack in the economy. Some securities were sold directly to Banks and Bank of Canada. Between the end of 1938 and the end of 1940, "money supply", currency and all bank deposits, rose from $2,560 millions to $3,001 millions, a gain of $441 millions, about 16.8% for the two years. Bank of Canada bond portfolio grew from $163 million to $576 million, while chartered bank portfolios grew from $1,187 million to $1,288 million, including Provincials. (These figures come from the October 1949 Bank of Canada Statistical Summary, and Dr. E. P. Neufeld's "Bank of Canada Operations and Policy", Toronto 1958).

Later War Years, 1941-45

By late 1940 the problem became one of financing an all-out war at low interest rates. Money, newly created, and used once to pay government bills, was now in the hands of others, and available to be loaned back to government. The National War Finance Committee successfully mopped-up much of this excess purchasing power, by selling the people Victory Bonds. Rationing and price control appeared. New money was created from time to time, as necessary to keep the bond market on a 3% level. The 1945 wholesale price index stood at 103% of the 1926 average, against 82.9% in 1940. Consumer prices ended the war nominally 20% above pre-war.

(A) "Life of John Maynard Keynes", by R. F. Harrod; MacMillan, London, 1951, page 434.

(B) "Government Securities, Congress and the Budget", a speech by Aubrey G. Lanston to the New Jersey Savings & Loan League, Trenton, N.J. February 16, 1959.

By the end of the war, debt and money supply compared to pre-war, as follows:

(Millions of $s)	Dec. 31, 1938	Dec. 31, 1945
Gross Debt:	$4,336	$17,484
Held by: Bank of Canada	182	1,842
Chartered Banks	767	3,506
Government Accounts	159	821
All other holders	3,228	11,315
Currency in circulation	238	1,055
Current Bank deposits (Ex Govt.) (X)	850	2,459
Inactive Notice Deposits (Y)	1,472	3,782
TOTAL MONEY SUPPLY	$2,560	$ 7,296

(X) includes "active Notice Deposits"
(Y) these might be called "Savings".
(Source: Bank of Canada Statistical Summary, October 1949)

In seven calendar years, 84 months, including 72 wartime months, money supply had gained about 185%, equal to about 16% compound per annum, the gain of $4,736 millions being about $56 millions per month. The public debt had gained over $13 billions, or nearly triple the gain in money supply, i.e. about $3 in bonds was sold to each $1 created. (By contrast the 20 months from July 31, 1957 to 1 April 1959 involved a $1,795 million gain in money supply (15.7%) and a $1,764 million gain in debt—almost dollar for dollar, at a rate approaching $90 millions per month).

The aftermath of most wars has been a sharp inflation, then a depression. Some argue that inflation is a just way of sharing War Costs, one which falls on those whose assets are in money contracts, rather than in physical assets. In England, D.E.W. Gibb, a Lloyd's official cites 1936 discussions on War Risk Insurance: (A)

> The only body which could possibly meet the loss was a body with the right to create money. The government, which alone had the power of inflation, might do it. But no one else could.

If English insurance men foresaw deliberate inflation to cover only one of the costs of war, sophisticated Treasury officials in the U.K. might similarly foresee inflation to pay other, larger, war costs. To my knowledge, no one in authority, in Canada, cited the inevitability or desirability of inflation, to pay part of the war costs. If such views were held, public policy would have dictated their being kept private.

Most likely, officialdom, as well as the citizenry, believed that the initial success of price controls, which at least hid a latent inflation, might keep inflationary forces in check until they abated from a post-war recession. How else can we explain the wartime plans for a postwar cheap money policy. (See Page 5, 1943, Bank of Canada Report). The Bank Rate was lowered from 2½% to 1½% in February 1944.

Post-War Years, the Korean War, 1946-52

Reduction of the public debt by $1,500 millions, from the $1,750 million surpluses of fiscal years 1946-50, was not enough to offset all public disinvestment of Victory Bonds. The "cheap money" policy, to aid re-conversion to peacetime, to avoid an anticipated post-war slump, to aid in keeping down public debt charges, meant that bond prices were well over par.

(A) "Lloyd's of London"; by D. E. W. Gibb; MacMillan, London, 1957.

Between the end of 1945 and June 1950, Bank of Canada bought $203 millions of bonds, expanding the money supply in multiplying fashion so that chartered banks were able to expand loans by $1,028 millions while selling off only $215 millions in bonds. Currency and Bank deposits expanded from $5,905 millions at December 1945 to $8,364 millions in June 1950, about 41% in 4½ years, or at about 8% compound, per annum.

Retirement of bonds owned by the public from surpluses means that *existing* deposits change hands, while Bank of Canada buying creates *new* deposits. Lower bond prices (higher interest rates) would also have lessened public dis-investment.

Prices well above par meant that these bonds were rather liquid assets. Perhaps between 1946 and 1950 was the proper time for a big Conversion Loan, inducing the public to extend terms by offering a higher interest rate. But the debt was still rather large, relative to GNP, and neither government nor Bank would want to raise total interest charges.

A crystal ball, showing the Korean War ahead, would have probably encouraged a Conversion, certainly higher interest rates, less monetary expansion, and bigger surpluses. Lacking such second sight, we encountered the Korean War with a most adequate money supply, bond prices well over par, good memories of wartime shortages. This liquidity soon meant too much money chasing too few goods. Consumer prices (1949 equals 100), varying but 2% between September 1948 and May 1950, rose to 106.6 at the end of 1950, to 118.1 at the end of 1951.

Simultaneously, our dollar, pegged at 90 cents U.S., attracted an influx of foreign capital, adding $640 millions to our exchange reserves between May and October 1950, forcing the Exchange Board to create this amount in new Canadian dollars. To offset, the Bank of Canada sold off $240 millions of its bonds, tending to destroy money in a multiplying fashion. Eventually our dollar was freed, and the net rise in Canadian money supply was held to $350 millions between June and December 1950.

From late 1950 to October 1953, interest rates were encouraged to rise, 15-year bonds going from 2.73% in June 1950 to 3.75% in October 1953, while 25-year rates touched 3.92%. Anti-inflationary efforts were given priority, the consumer price index actually dropping from 118.1 at the end of 1951, to 115.8 a year later, and 115.8 at the end of 1953.

Budget surpluses were $460 millions in fiscal 1951-52, and by the end of calendar 1952 the post-war debt reduction had reached $2.3 billions. Between the end of December 1950 and the end of 1953, expansion in money supply was but $633 millions in 36 months.

It requires hindsight to really criticize post-war fiscal and monetary policy in terms of contributing to inflation 1945-53. The initial postwar rise, and the Korean War were the main culprits, while the "cheap money policy" and its authors—the fear of postwar recession—the high public debt, were minor culprits. Interest rates should have risen faster, surpluses should have been bigger. Yet the public resented high taxes, and surpluses. Surplus fiscal policy was of course utterly and completely deflationary. We just "kept the thermostat too high", not foreseeing the Korean War.

January Prices (Consumer Index, 1949 equals 100).

1946	1947	1948	1949	1950	1951	1952	1953	1954
75.2	79.6	92.8	99.8	100.1	107.7	118.2	115.7	115.7
Annual Increase	4.4	13.2	7.0	0.3	7.6	10.5	—2.5	NIL

(Bank of Canada Statistical Financial Supplement, 1954)

I doubt if the January 1947 level reflected true prices, due to quality deterioration under price control, while "black markets" reflected some prices better than official ceilings. There were few used cars, for example, at the ceiling prices. So the 1948 level may have been partly a belated recognition of facts which existed "sub rosa" as early as January 1946. The United States removed price controls suddenly in mid-1946. We were very large importers of U.S. goods in this period.

The 1953-4 Recession, the Recovery, the 1955-7 Boom.

Increased unemployment, decreased production became apparent in late 1953. The money supply was increased from $9,295 millions in January 1954 to $9,485 millions in March, and $10,168 in December 1954.

In July 1954 the chartered banks began to operate under a statutory minimum cash ratio of 8% of deposits, a departure from the previous custom of a 10% ratio. This immediately gave the banks about $200 millions in "excess reserves", consisting of un-invested cash, which at an 8% reserve ratio could multiply 12½ times, in theory, adding $2,500 millions to the banking system. Please remember this, for I believe it is one of the prime causes of the 1955-7 inflation.

Simultaneously, the banks were encouraged to begin lending on mortgage. Housing had attained a new status, that of a creator of employment, replacing the "housing shortage" theme of earlier years. Though but $74 million in bank mortgages were actually placed by December 1954, more money had been committed for 1955, and the housing industry placed in high gear. The $200 million excess reserve encouraged the banks to make "term loans" to customers, somewhat like private bond issues, except in one vital respect. Both these term loans and mortgage loans were being made by the creation of brand new deposits, based on the excess reserves. Thus housing began to depend on monetary expansion. This is most important.

Potential inflation was already present, but the consumer price index rose from 115.7 to 116.6 in 1954. The banks initially used up some of their excess reserves by buying up government bonds, which mostly came from the public. Bank of Canada initially raised its holdings $64 million, but had a net gain of only $14 million for 1954. The public debt in 1953-54 grew about $275 million, while ordinary budget surpluses in 1953-54 fiscal years were $69 million, combined, with 1955 showing a $151 million deficit. Fiscal policy was thus a shade more inflationary than neutral, but hardly significant.

I believe the inflationary pressures of 1955-7 were born in 1954. The lowering of bank reserve ratios sparked a substantial rise in money supply, which was with difficulty halted in 1957, after the imposition of "secondary reserve ratios", bans on term loans, and rising interest rates in 1955-7. The growth in money supply, from $10,168 million in December 1954 to $11,437 million in July 1957 was the result. Fortunately fiscal policy was almost neutral, with a surplus evident for fiscal 1957 of $257 million, offsetting a $33 million deficit for 1956, and the 1955 deficit too.

Consumer prices rose to 116.4 in January 1955, 116.8 in 1956 and 120.3 in January 1957. They did not fall during the subsequent recession, rising instead to 126 late in 1958. The wholesale price index led the rise, starting in December, 1954.

Moreover, the lower bank reserve ratios had placed the housing industry in a preferred position. Banks financed 17,000 units in 1954, 34,000 units in 1955, mainly by monetary expansion. In 1956, squeezed between monetary restraint and the needs of commercial customers, they handled but 16,000 units, and, as Mr. Coyne remarks in the 1957 Bank of Canada report:

> In the early months of 1957 the chartered banks had virtually withdrawn from the field of insured residential mortgage lending . . .

Housing had become a "sacred cow". Notwithstanding the general anti-inflationary policy and the ban of term loans over $250,000, housing loans rated preferred treatment. Banks were asked to make 15,000 loans totalling $150 million in 1957, devoting the expected ordinary expansion of their assets, plus such reserves as Bank of Canada might supply, to housing. The banks made 15,700 approvals, and the amounts totalled $173 millions. I do not see that housing from monetary expansion is any less inflationary than other forms of loaning. Housing had outrun the formation of families for several years, before 1957.

Undoubtedly, these steps kept the housing industry in viable condition, but it was inflationary. The camel's nose entered the tent in 1954, and the animal intruded further in 1957.

Comment on the anti-inflationary efforts of late 1955 to mid-1957 is unnecessary, as the events are too recent to merit discussion, with one exception. The banks acceded to suggestions that they carry secondary reserves of Treasury Bills and day-to-day loans, which with their cash, would aggregate 15% of deposits.

To sum up, until 1953, monetary expansion took place in conditions of budgetary surpluses and debt retirement. In 1954-7, fiscal policy, on the whole, was neutral. Price rises concentrated around the period of the removal of controls, and the Korean war. Monetary expansion in 1953-4 involved lowering bank reserve ratios, rather than massive government deficits. Mortgage lending involved monetary expansion, even when general monetary policy turned toward restraint.

The Bank did not have to lean against deficit-induced monetary expansion. It did not need expansion to float new issues. Generally, to 1951 monetary policy took a back seat to fiscal policy. Later the reverse was true.

No attempts were ever made to "roll back" the two major price rises. A large trade deficit with the U.S. eased some of the inflationary pressures in Canada, for we had access to imports.

Mr. Coyne's remark that "monetary policy must strengthen and re-affirm its determination to remain true to the basic principles of sound money" suggests to me that it has at times strayed in the pursuit of other objectives—debt management—cheap money—foreign exchange flows—stimulation of the economy—and maintaining a flow of housing.

JULY 1957 TO DATE. GOVERNMENT DEFICIT FINANCE, THE INFLATIONARY OUTLOOK FOR 1959-60

Monetary restraint, which drove the Treasury Bill rate to a record 4.08% on August 21, 1957, virtually ceased at that point. Rates of interest dropped, and the money supply was increased $486 millions by December 31, 1957. The Bank of Canada's 1957 report states: (Page 25)

> Monetary policy changed as the economic boom levelled off in the second half of 1957 and action was taken by the Central Bank to accelerate the rate of increase in money supply.

This growth in money supply meant that the subsequent cash borrowings of the government emerged into a market in which there was already an increased money supply. With this "head start", and additional supplies up until the last quarter of 1958, debt and money supply have run neck and neck for the 20 months to April, 1959. In July 1958 a temporary loan from Banks and Bank of Canada to the government, expanded money supply $400 millions. It was repaid in December.

Public dis-investment during and after the Conversion Loan, when those who had held Victory Bonds could obtain as much as 6 points over pre-loan prices, involved further expansion. These bonds were mainly bought by Bank of Canada, for the new deposits created, at the chartered banks, induced these institutions to "rebuild their liquidity", offsetting an impairment in liquidity, occasioned by the Conversion of their earlier Victory bond holdings. Bank of Canada became less liquid, as its long holdings grew, and its short holdings were lessened both by Conversion and the appetite of the chartered banks for short terms against their new deposits (from public dis-investment). Some banks may have "undone the Conversion", once the market was freed.

Any obligation, moral or otherwise, imposed on Bank of Canada, to support the post-campaign market on the new bonds, was well discharged until the increase in money supply became alarming. Support ceased October 31st.

Millions of $s 1957–1958	Total Currency and Chartered Bank Deposits	Total Federal Debt
End of July 1957	$11,437	$14,796
Dec. 1957	11,923	15,164
Mar. 1958	11,880	15,268
June 1958	12,352	15,503
July 1958	12,919	15,870
Aug. 1958	13,080	15,844
Sep. 1958	13,022	15,810
Oct. 1958	13,347	16,014
Nov. 1958	13,338	16,555
Dec. 1958	13,247 Gain $1,810	16,407 Gain $1,611

Mr. Coyne not only points out that the increase in money supply was "greater than necessary or desirable for monetary and economic reasons alone", but also (page 5 Bank of Canada Report):

> ". . . . by early October a sufficient degree of expansion of the money supply had taken place to make possible the financing not only of full recovery from the recession but of a considerable degree of renewed economic growth thereafter".

Monetary expansion ceased in October, slight reductions in money supply, since then, taking place to April 1. Additions to debt since October were in the main placed in non-bank hands. For the period July 1957-April 1959, the picture is as follows:

Debt in Millions	1957 July 31st	1958 Mar. 26	1959 April 1st	Gain 1957 to 1959
	$	$	$	$
Gross Direct and Gtd.	14,796	15,282	16,560	1,764 (gain)
Savings Bonds	2,277	2,559	2,854	577 (gain)
Marketable Debt	12,519	12,723	13,706	1,187 (gain)
Owned By:				
Bank of Canada	2,401	2,431	2,601	200 (gain)
Chartered Banks	2,487	2,830	3,504	1,017 (gain)
Government Accts.	1,371	1,292	944	437 (decline)
General Public	6,242	6,155	6,657	415 (gain)
Total Currency and Chartered Bank Deposits	1957 July 31st	1958 Mar. 31st	1959 April 1st	
	$	$	$	
Less Float	11,437	11,880	13,232	1,795 (gain) or 15.7%

(Using Bank of Canada Statistical Summary (Nov. 1958) and Weekly Money Market Statistics (April 2-9, 1959)

For twenty months the entire increase in government debt, including Savings Bonds, has been paralleled by an increase in money supply.

Of the increase in money supply, Mr. Coyne states:

> "but was, I believe, justified and unavoidable in order that a strenuous and successful effort might be made to deal with serious problems affecting the financing of the Government's cash deficit and the condition of the public debt".

This is the nub of the increase in money supply; the government cash deficit, not a postwar cheap money policy—as the interest rate level shows; not a Korean War; not an increase in bank loans for these expanded but $6 million (1/10 of 1%) during 1958. There was one special item, also,—housing.

The housing industry, kept in viable condition in early 1957 by special consideration, was the cornerstone of governmental anti-recession policy. It operated at levels exceeding the capacity of all conventional lending agencies, including banks. In 1958 nearly ⅓ of all mortgages, conventional and NHA involved direct lending by Central Mortgage and Housing Corp. In all they financed $389 out of $1,199 millions in total mortgage loans of all kinds. This was part of the Federal cash deficit, which was financed by monetary expansion.

This but continues the pattern of monetary expansion which has characterized NHA housing since 1954. The housing industry at current levels may again contribute to 1959-60's cash deficit, either competing for funds, via government borrowing, or causing more monetary expansion. What will happen, when the banks must "tighten up" on lending? Do NHA loans cease or will CMHC expand direct lending?

From September 1958 to date, rising interest rates have accompanied the absorption by non-bank buyers of over $1.1 billion in marketable government debt, representing the increase in marketable debt, plus dis-investment by both banks and government accounts.

If this seems mysterious, compared to previous absorption of debt by banks, we should recall that the increase in money supply, created originally to finance government cash deficits, has passed through the hands of the government. It is now in the hands of the general public and corporations. These deposits, being newly created ones, had not been extracted by taxation (old deposits), and when government passes them on, they become "extra" deposits for the general public.

At a price, the public is willing to exchange these deposits for bonds, mainly short terms, since Bank of Canada's long term holdings have been rather static, and bank selling, plus new issues, have been mainly short term.

These increased bond holdings seem to be mainly concentrated in corporate hands, representing retained earnings and depreciation monies, together with (until recently) decreased inventories and receivables. This trend will stop, and may reverse, when we enter a period of expanding inventories, receivables or capital investment. (A)

This has important inflationary implications. The growth of bank loans, over $400 millions in general loans since January is accompanied by a $100 million-plus growth of finance company borrowings since last Fall. Maybe some finance companies drew down funds and placed them in government bonds temporarily. Banks have been sellers of government bonds since February.

Just as some corporations have expanded bank loans, so others may soon need to make greater use of their liquid resources, including government bonds. They may wish cash on maturity—or may sell off bonds.

(A) For the 6 months to Mar. 13, 1959 general public holdings of Canada bonds (marketable) increased $1,069 millions, of which $182 million were bills, $843 millions under 2 years.

Such liquidation in volume, as banks are also selling, and government is still financing a deficit, may cause a critical situation. The May financing of 182-day Bills and long CNR bonds was indifferently received. New buyers for short term bonds may be found by raising interest rates further. There is *some* rate of interest which makes bonds more attractive, to corporations, than their own businesses. Short term discount government bonds now afford a corporation the equal of an 8% "before tax" return.

But, public and government may exert pressure on Bank of Canada to again enlarge the money supply to accommodate selling by banks, government and corporations. Acquiescence by the Bank would add another inflationary injection of fuel to the accumulation of the past twenty months, which in monthly volume, already exceeds the wartime average.

The Bank of Canada's report testifies against any departure from monetary rectitude. But, remembering the remarks of Mr. Abbott, quoted earlier, it may have to accede—not from sympathy for the banks and their book losses—not from sympathy for corporations selling or maturing bonds—but from the need of the government.

If the government must raise cash or refund, when the existing corporate bondholder prefers to take his cash instead of a new bond, there is a real dilemma. The Bank may prefere to remain adamant, claiming there is already enough money for recovery and growth. In this case, government must seek a higher, more attractive interest rate for its refunding, to attract new buyers. There will be the usual public outcry about "tight money". This is a situation which may come to a head before this committee finishes its deliberations for there is a government refunding mid-June, another in October.

If the Bank accedes and increases the money supply again, I believe the rise in prices, almost inevitable in late 1959 and 1960 from previous increases in money supply, will be greater than would take place if money supply remained frozen at today's level. This will mean that past fiscal policy has again forced monetary expansion on the Bank, whatever the latter's judgment of its necessity.

As a victim of such circumstances (which it was in 1958), the Bank can only offset by permitting increases in interest rates, and administering the dose of monetary expansion in as limited and delayed fashion as possible. They can also take steps to reduce the liquidity of the economy (such as the Conversion Loan) by trying to attract investors into the longest term bonds, which might entail unpalatable book losses if sold later on. This is however a rear-guard action, a delaying obstruction to the rising pressures of expanding money supply.

The deficits of fiscal 1958-9 and 1959-60 will be the main causes of the inflation of late 1959 to 1961. The wholesale price index, which in 1955-56 led the parade, has again been rising since October 1958. Consumer prices may follow very soon.

I have some optimism as to staving off some of this pressure. If the Bank of Canada can prevent any further increase in money supply, if interest rates can be allowed to rise further, as markets may dictate, and if the government budgets for a surplus in 1960-61, there is a basis for belief that the price rise will be moderate.

Unlike 1955-57, high interest rates and monetary restraint are here before the economy has really begun to boom. The rise in bank loans, to date, has encouraged restraint, although the expansion is less than the 1954-57 expansion. Interest rates are at levels not seen since 1920 or 1931. The fire department (in the person of the Bank of Canada) is ready, with hoses manned, before the conflagration has begun. Let us hope it is not called off the job to add more inflationary tinder to the present accumulation.

The Creeping Inflationists

There is a school of thought, to which Sumner Schlider subscribes, which believes that a gradual, creeping inflation, is a necessary concomitant of a proper rate of growth. They claim this can be accomplised without acceleration of the rate of inflation.

I doubt if we could have a planned, creeping inflation, which would not "catch fire" and "gallop" to a chaotic end. We have in North America a fairly literate population. The organs of public information, the daily press, magazines, and indeed the public at large are aware of the inflation of the past 20 years. None of us who are under 40 have known anything but generally rising price levels for our entire working lives.

If we adopt the thesis that government policy should contrive the gradual depreciation of money's buying power every year we would soon find that all financial decisions were based upon this same assumption. We would tend to accelerate the "growth" as we built today to escape tomorrow's higher cost. We would decelerate the process of lending money as we naturally adapted our savings plans to an official policy which gradually ate up our money. Savings would find outlets other than lending. By increasing the demand for, and decreasing the supply of, lendable funds, we would continue to raise interest rates, and cause a popular clamour for increases in the money supply. If the government supplied the desired new money the process would be intensified, as would also be the rate of inflation, over and above the official intention.

We would be lucky to escape the common fate of many European, Asiatic, and more important—South American countries, who cannot blame their inflations on war devastation. Eventually we might find that loans repayable in terms of commodities would be the only feasible methods of borrowing at long term.

Even assuming public apathy or ignorance, certain strains can be demonstrated by an ordinary compound interest table. While there is no such thing as a compound table of public psychological trends, I would suggest that another generation of rising prices will leave *no* portion of our society with even a memory of stable or falling prices.

Creeping inflation, at 2½% per annum, will double the price level in 28 years, triple it in 45, quadruple it in 56 years. This compound interest would work on the present price index (1949 equals 100) to raise it from today's 125 to 250 by 1987, 375 in 2004 and 500 in 2015. Changing the index every few years will not fool everybody, every time.

Thus a trust fund, which would finance four houses today, would finance but two in 1987 or one in 2015. Obviously this process diminishes the use of post accumulations of savings in financing growth for the future. We can see the possibility that the insufficiency of savings would tend to encourage pressure on government to "create" the needed money, especially for something like housing.

Advertisements in magazines formerly urged us to retire at age 65 on $100 per month, then $200 and now $300. One cynic recently commented on one of these, showing a man fishing, "the poor devil has to fish, for he cannot buy enough food on his pension".

The prospect of retirement on $5,000 per year at 65 may seem attractive to a young man of 20 today. With 2½% per annum creeping inflation, he will need $15,200 for his first year of retirement to support himself on today's $5,000 scale, for this inflation means a price level of 3.04 times today's level, in 45 years. If our man lives to age 80, fairly probable today, he will need

$22,000 for his 15th year of retirement, to maintain today's $5,000 living standard, since 2½% per annum inflation will by then produce a cost of living index 4.4 times that of today.

Averaging out the income for age 65 and for age 80, our man will need an average income of $18,600 per year for 15 years. At 4% interest he would need to pay $206,000 cash for an immediate 15 year annuity commencing at age 65 of $18,600 per year.

Saving $206,000 capital between age 20 and age 65 is a large task for the average citizen. While the active and organized workers may keep their wages rising with the cost of living, their early years' savings get no compensation. It is these early dollars, at compound interest, which are in theory supposed to grow into the biggest part of a retirement plan. With luck, under creeping inflation, they may just grow enough to preserve their original buying power, when interest is added.

I suggest that creeping inflation means that the average man can hardly hope to save, from his income, enough to support him in comfort and dignity in his old age, if he invests in the conventional media of insurance, annuities and bonds. Of necessity he will have to lower his post-retirement standard of living, and become increasingly dependent upon public assistance.

If creeping inflation is "planned", the population's awareness can have two effects. The preference, in pension plan investments, for common shares or other titles to property, already quite noticeable, may grow generally. This would intensify a shortage of money to lend, raise interest rates, and strengthen the clamour for government to create more money. As one of the victims of a scarcity of money to lend, government would perhaps heed the clamour and the resultant monetary expansion would intensify the inflation.

The other effect of a realization of creeping inflation's treatment of retirement plans might be the waning of the socially respectable habit of saving for old age. Why save a depreciating asset when the government, responsible for the depreciation, is thus morally responsible for our support in old age? This attitude means a growing demand for larger old age pensions, from a growing sector of the population. The demands might entail larger pensions, relative to living costs, than we now obtain.

This rising strain on government finances for pensions might be the cause of frequent deficits, entailing more monetary expansion, or such a high scale of taxation that this too would add to the upward spiral of prices.

I believe it is but a pious hope that a policy of creeping inflation at any rate could be held to that rate, for both the mathematical results, growing public awareness, and changing public behaviour, would combine to introduce an acceleration factor. The end result would be a gallop and crash, as in Germany, or a change in the structure of government and society, as in France and other countries who have escaped the galloping crisis.

Prices double in 28 years at 2½%, in 24 years at 3%, and 18 years at 4%, and 15 years at 5%. *Since we have averaged 2.25% inflation since 1949, while allegedly aiming at price stability, what rate of inflation might we attain if we deliberately aimed at 2% or 3% inflation?*

Inflation is too much like the drug habit; the dosage tends to grow. The arguments in its favour are so obviously tolerant of what is fundamentally and obviously a theft from savings—dishonesty, if you will—that we may

already, in some cases, be on the verge of becoming addicts—finding virtue in dishonesty—and doing so in apparently innocent good faith. What a moral contradiction we must swallow when we accept creeping inflation as a virtue.

When, in 1919, John Maynard Keynes wrote: (A) There is no subtler, no surer means of overturning the existing basis of society, than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose.

the well-known runaway inflation in Germany was four years in the future. Germany's masses and middle classes lost all their savings, mainly invested in money or contracts payable in money. (B). German trust funds, were by law, invested in money contracts until 1923, when the law was changed, by which time the trust funds were totally worthless anyway. Some historians claim that the wiping out of middle-class savings, and the impoverishment of the middle class which had been the backbone of Germany, laid the groundwork for the rise of Hitler.

The Autobiography of Dr. Hjalmar Schacht, former Governor of the German Reichbank, states: (C) (D)

> In matters of money....the educated section of the population grasp the devaluation process more quickly than the uneducated masses. Anyone who was alive to the signs of approaching inflation could safeguard himself against losses in paper currency by the purchase of assets....houses, real estate, manufactured goods, raw materials. This wholesale recourse to real values enabled....the well-to-do, but also and especially the unscrupulous, to preserve and even possibly to increase their assets.

On this thought, Keynes, in 1919, remarked: (E)

> If prices are continually rising, every trader who has purchased for stock or owns property and plant, inevitably makes profits. By directing hatred against this class . . . Governments are carrying a step further the fatal process which the subtle mind of Lenin had consciously conceived. The profiteers are a consequence and not a cause of rising prices. By combining a popular hatred of the class of entrepreneurs with the blow already given to social security by the violent and arbitrary disturbance of contract and of the established equilibrium of wealth which is the inevitable result of inflation, these governments are fast rendering impossible a continuance of the social and economic order of the nineteenth century. But they have no plan for replacing it.

This suggests that a violent inflation would overturn the existing basis of our society, with the chief victims being those whose assets are money contracts; bonds, life insurance, pensions, mortgages. Entrepreneurs, whose assets run to bricks and mortar, machinery, and stocks of goods, quite often partially financed by borrowed money, would not only have a better chance to survive, but might even profit substantially by repaying creditors in spurious coin. They would probably be singled out for capital gains taxation, as profiteers.

(A) "Essays in Persuasion", by J. M. Keynes, Rupert-Hart Davies, London, 1952 edition. page 78.

(B) "The Story of Money", by Sir Norman Angell. Stokes, New York, 1929, contains a chapter on the German inflation containing day-to-day quotations from the German correspondents of the "Times", "Telegraph", and "Daily Mail".

(C) "Confessions of the Old Wizard", by Schacht. Houghton-Mifflin, Boston 1956, page 153.

(D) The story of 2 German Inflations is contained in a speech given to the 20th Annual Meeting of the U.S. Institute of Life Insurance, Dec. 9, 1958, by Ludwig Rosenberg, Head of the Economics Department of the German Federation of Trade Unions.

(E) "Essays in Persuasion", by J. M. Keynes, Rupert-Hart Davies, London, 1952 edition. pages 78-79.

I do not suggest that North America is in any danger of a German-style inflationary orgy, but we might profitably examine the case of France. We know our 1939 dollar is worth under 48 cents, while our 1900 dollar may be worth under 29 cents, a 71% loss in under 60 years. The French franc, by comparison has lost over 99% of its value in about 45 years, without inflation ever reaching the runaway stage seen in Germany.

It can truthfully be said that the basis of French society has been overturned, for the "rentier" class have nothing left "but their eyes to cry with". The economic reforms, which promise to save France from bankruptcy, have been accompanied by constitutional changes which shift power from the Assembly to the executive, particularly the President.

As William Millinship, of the London Observer, puts it (A), "The people have been put to sleep" (quoting a right-wing Gaullist) "and that is a good thing". The former beneficiaries of state largesse and inflationary trends do not like the new economic decrees, and it is too soon to say whether France will be saved without civil disturbances and more authoritarianism. Perhaps continued inflation in North America will lead to regimentation, in an attempt to control the disease. James K. Vardaman, Jr., until six months ago, a member of the Board of Governors of the Federal Reserve Board, expresses this view (B).

Savings, Investment, the Capital Market and Inflation

Since the War we have indulged in "growth" at a rate exceeding our willingness to save. Our own savings have been augmented by both foreign investment and monetary expansion. The foreign investment is not inflationary per se if the foreigner "swaps" his U.S. money for an existing deposit of Canadian money, but it would be inflationary if the government "created" Canadian dollars for him.

Physically our post-war capital goods expansion was largely possible because we could satisfy some of our wants, both in consumer goods and capital goods, by importing, using in many cases the foreign money which was financing part of the capital investment.

It is not surprising that GNP has grown by about 100% since 1949. Yet the assets of our 12 largest life companies, doing nearly 78% of the business, grew by only 80%. Nearly all life companies will report a declining premium income per $1000 of business, over the past decade, although underwritings have exceeded the growth of GNP. I believe the place of insurance in our economy is still expanding. Yet the public are buying increased proportions of group and term, in which the savings portion of the premium is negligible. It is the savings portion of premiums which creates accumulations of capital in large amounts.

Against the 100% growth of GNP since 1949, there has been but a 67% increase in personal savings deposits. Per capita, because of population increase, (13.1 to 17.3 Million January 1949 to January 1959) in the order of 32%, we have just under $1.26 in savings deposits for each dollar we had in 1949. Since prices have risen from 99.8 in January 1949 to 126.1 in January 1959, on the consumer price index, our savings deposits, per capita, are slightly less in terms of consumer goods and services than they were in 1949. This is not offset by a growth in public individual holdings of government bonds; quite the contrary.

(A) "Toronto Globe and Mail", May 18, 1959. Editorial Page. "France Looks Back on an Epic Year."

(B) Excerpts from Mr. Vardaman's speech to Georgia Bankers at Augusta, in April 1959, are attached, at the end of this paper.

Maybe this reflects public recognition of inflation, as the rapid growth of mutual funds might indicate, and maybe the public prefer to invest more of their savings in tangible assets.

The "shortfall" between institutional investment funds and demand for capital loans is perhaps greater than these figures on savings and insurance companies, using the consumer price index, would indicate, for building materials are 30% more costly than in 1949, while construction wages at the end of 1957 were 63% above 1949. Land costs have also risen. In other words these two examples of institutionalized savings would build fewer houses per capita than they would have in 1949.

Consumer credit, though but a short term debt to an individual, is permanently using a large proportion of the total credit in Canada. Allowing for growth of population, 32% since January 1949, and a 26% increase in prices, we might expect a growth from 1949 of about 66%, if all other trends had remained equal. Bank of Canada Statistical Summary Financial Supplement for 1954 gives a total of Charge Account, dealer sales paper, and finance company credit, plus personal bank loans, of $712 millions in March 1949. At the end of December 1958, the charge account-dealer-finance accounts were $1,988 millions, with personal bank loans of $553 millions making a total of $2,541 millions. The increase is not the expected 66%, but about 256%. The philosophy of "pay while you use" is not producing the savings deposits of the "save for it first" school of thought of other generations, but is also using a larger share of our available capital, whether it is in the form of the finance companies own capital, notes sold to the public, or loans obtained from banks. Instalment finance companies owed the banks $63 million in March 1949. Last week (May 13) the loans were $402 millions. Capital used for this purpose, whether coming from banks, or others, is not available for long term loan investment in fixed assets.

The long term capital market, whether reflecting public consciousness of inflation, or just over strain, is showing signs of decay in some areas, particularly those in the "social capital" field. Small municipal and school credits, who 35 years ago generally managed to borrow on their own credit, have tended increasingly, since the war to either use Provincial guarantees, or more recently, to sell their bonds to Provincial governments or their agencies. Two Provinces are financing projects with Federal funds.

Except for minor post-first-war aid from housing corporations, mainly at the municipal level, housing in Canada depended upon "conventional" mortgages until recent years. Government guaranteed loans by 1954 outran the capacity of life company and other institutional funds. Then recourse was had to the banks at a time when lowered reserve ratios provided a base for monetary expansion. When the banks further capacity was in doubt, because of general monetary restraint, the restraint was relaxed for housing loans. Then the Federal Government in 1957-58 began financing some housing out of the Federal till. Since the Federal Government is still in deficit, such financing came, since 1957, primarily by monetary expansion. Housing is again largely dependent upon newly created money. We are creating a "vested interest", which has largely flourished upon monetary expansion. Although monetary expansion is a prime cause of inflation, the political aspects of a housing cutback are unpalatable.

The social sector of the economy does not get equal access to available savings compared to the corporate sector, which is much more flexible in its approach to the rising of capital.

A corporation can:

1. Retain earnings for expansion.
2. Invest depreciation money, earned by existing assets, in new assets.
3. Sell common or preferred shares.
4. Borrow money against existing assets, or sell and leaseback.
5. Borrow money against the new assets to be created.

Social projects generally are not substantial profit makers, and if there are depreciation monies, they are generally earmarked to repay old debt. Social projects cannot sell stock. Existing assets may be already burdened with debt, and the sale-leaseback method is costly, and one not too adapted to municipalities. Perhaps we may soon have to follow the U.S. system of revenue bond issues, in municipal finance, which makes utilities stand on their own feet, leaving the "full faith and credit" of the municipality available for general purpose borrowings. Toronto's capital levy financing may become more common.

Most important, however, a corporation can charge its interest costs to revenue, obtaining thereby a 50% or higher subsidy from the tax collector. They can thus afford to pay higher rates of interest than a municipality. Individuals, borrowing on mortgage, or paying in municipal taxes the cost of civic borrowings, may have to earn $1.50 or more to raise the $1.00 needed for interest, since Ottawa taxes their earnings first, leaving the residue for interest and local taxes.

We are not surprised that the past decade has been marked by declining institutionalized saving, relative to GNP, price levels and population, or that borrowing tendencies have increased. Every week public projects are accelerated because they might cost more later. Corporate management recognizes the same principles, and automation is encouraged by the known cost of a machine versus the unknown but probably rising cost of labour. It is to be expected that some part of public savings seeks hedges against inflation, shunning money contracts, with an increasing portion of savings being already mortgaged against previously acquired debts.

No wonder the demands on the capital market increase, and the "shortfall" of available funds grows during each period of expansion or recovery. When all borrowers cannot be accommodated by the available supply, and there is public clamour to prevent the supply being rationed by the interest rate, the temptation to enlarge the money supply is always present. When the government is among those competing for money, the temptation to create more money is almost irresistable.

Such a monetary injection would remedy the shortage of the moment, but its inflationary effect would intensify tomorrow's price rise, tomorrow's demand for capital, and tomorrow's reluctance on the part of savers to lend, even at rising rates of interest. Each weakening—by Bank of Canada or government—creates more disillusionment among the investors who will still lend.

In fact, while corporations' bonds are just as subject to the erosion of inflation and the volatility of prices as government bonds, there are some who would favour such investments over and above government bonds. Whatever the government bond rate, the lesser credits probably pay more, and their ability to pay has been generally enhanced from continual creeping monetary expansion. This ability of the corporate bond market to absorb $100, $200, millions or larger issues in the U.S., while $500 million long government bonds—but a fraction of total corporate borrowing—meets with little favour, raises another question in some U.S. minds. Is the market deliberately discriminating against the government as a penalty for past and present deficits, monetary expansion, and inflation? Could this be said of Canada?

Our system of institutionalized finance and public borrowing is largely an outgrowth of stable money in the era when the pound did most of the world trade—was tied to Gold—and for some seventy years gradually increased in purchasing power as productivity savings were shared with the consumer—as they are not today. Adam Smith's (A) remark that no government ever paid a debt except by repudiation—outright default, or by a "pretended payment" via a depreciating currency—became untrue, until the first war. Perhaps, since Adam Smith's opinion is again with foundation, it is almost too much to hope that our system will continue to function properly if we continue depreciating our money.

Further decay in the capital market, solved by monetary expansion, would surely give us an even more high priced economy. We would lose more of our export trade, and the next step, regimentation of the capital market is but a temporary expedient. (B) Social unrest is a possibility, if we continue the path of monetary expansion.

Let it not be said that the bond markets are weak purely because of the "heavy load" of government new issues, for the figures show there has been enough money created, previously or simultaneously to balance them. The answer lies partly in public disquiet over the monetary expansion, and partly because this expansion suggests we may need higher interest rates and lower bond prices to prevent a sharp inflation.

Interest Rates

The tendency of interest rates to rise during inflationary periods, as demand for capital expands faster than savings increase, has already been noted. Insofar as this rise in rates tends to cause postponement or cancellation of building projects, it lowers the demand for materials and labor, lessening the upward pressure on prices.

The recognition by savers, that money is deteriorating, also builds up a reluctance to lend unless the rate of interest contains a compensation for depreciation. High rates of taxation also discourage lending, making speculative investment more attractive. We have only to look at a 5% bond, held by a man whose upper income tax bracket is 40% (about $12,500 income). After tax he nets but 3%, to offset both the erosion of his principal by inflation and the risk of price fluctuation as well. His net return, after inflation, may be negligible.

The current willingness of the authorities in Canada and the U.S., to let interest rates rise, (as the economy recovers) to a degree not permitted since the early 1930s, bespeaks a recognition of this condition. This is encouraging.

In Brazil, where the cost of living has risen from 100 to 528, since 1946, we are told that short term interest rates are 12% (Brazilian Traction Annual Report, 1958, page 4). You may wonder why this rate, inadequate to offset inflation, prevails. The probable answer is that, in any country, at any stage of inflation, there exist investors who must hold liquid assets, and have only the choice between holding cash and short term paper. Both are equally subject to the ravages of inflation, but the paper at least provides a limited return. In Brazil, industrial and commercial dividends run to 20%-30% per annum. Apparently both borrowers and lenders become acclimatized to high interest rates, when they recognize that they reflect a depreciating currency.

(A) "Wealth of Nations" Adam Smith, Chap. 3, Book 5, "Public Debts".
(B) See speech by James K. Vardaman attached.

We should find this no more surprising than that the gross rent of a building, as a percentage of its value, should rise when the tenants were mistreating the property, when new rental space was scarce, and when municipal taxes were rising.

Excepting the interest rates applying to those who must hold cash or short term paper (banks, corporations, etc.), it is likely that interest rates of the future will reflect the rate of inflation, the rate of taxation of investment income, and the public recognition of inflation.

Any attempt to emulate Doctor Dalton, in England, and drive interest rates down by official action, is fraught with danger. It would involve more monetary expansion, and could drive *short term* rates of interest down sharply. But since public recognition of the connection between monetary expansion and inflation has grown considerably since the war, it is probable that there might be a public dis-investment of longer term investments, an accentuation of the flight into equities, and a rising demand for loans from those investing in real property. Long term interest rates would eventually rise. The price level would of course be subjected to upward pressure again, also.

Possible Steps to Control Inflation.

Budgets

Not only should budgets be balanced in periods of recovery and expansion, but they also should show a surplus, to be used for debt retirement. Thus, existing bank deposits, transferred to government through taxation, are passed on to the bondholders to be available as new private borrowers, or municipal borrowers appear. These funds are not newly created money. In real terms, government is moderating its appetite for goods and labour, leaving more for others. Contrast this with the 1957-58 competition between government and others for available funds—in real terms goods and labour, both in temporary supply, which it attempts to solve by creating more money, which will inevitably swell future demands for goods and labour, after the oversupply has gone.

If there is fear of public disfavour of budget surpluses, let the government make a fixed charge for Sinking Fund, treating it just as interest costs are now treated, so that a balanced budget would include provision for debt retirement.

It should not be supposed that deficits are wholly non-inflationary if it is possible to sell the bonds to the holders of existing savings deposits. Doubling the velocity of circulation of $1 doubles the amount of business this $1 can do, just as if another $1 had been created and the velocity of circulation had been left unchanged. When government borrows an inactive savings deposit, its velocity increases from almost zero to quite a substantial figure. If government were able to borrow existing but "active" deposits for its deficit, with the former depositor becoming an "inactive" bondholder, then the effect of the deficit would be about zero, with the increased use by government of the money balancing the total disuse of it by the ex-owner. The best that can be said of government stepping up the velocity of inactive deposits by borrowing them, versus straight monetary expansion, is that there is no legacy of enlargement of money supply, and velocity can only increase so much, and on existing deposits, un-augmented by the deficit.

An effort should be made to reduce the government budget as a percentage of GNP. Just as transfer payments in large amounts help the economy in recession by keeping up the level of spending, so they add to inflationary pressures in periods of recovery and expansion.

Taxes, levied in large part for transfer payments, also interfere with capital formation, and this is a serious thing in a capital short economy. With graduated income tax reaching high percentages in the upper income brackets,

and over 50% for corporations, we are taking funds away from sources likely to devote a large part of available income to capital formation. The recipients of transfer payments generally spend them. The same funds, in corporate hands, might have been used for capital investment, or if paid in dividends, would pass on to the hands of persons more likely to save them than spend them. Since both the shareholder class and the high bracket taxpayer may have fewer shortcomings in their standard of living than those in "need" of transfer payments, they have a higher propensity to save.

The time is long past, when increases in government taxes are passively accepted by individuals as decreases in their living standards, or by corporations as decreases in their income for shareholders. Every effort is made to restore the "take home" pay of individuals, especially when they are organized, forgetting the "social benefit" by way of hospital or pension rights this tax may have given them. Corporations will try and pass the tax increases, and any wage increases along, in the sheltered domestic economy, demanding more tariff protection if necessary. A larger money supply is a help too, to make price rises possible. In the export trade this is less possible for we compete with other nations whose citizens are perhaps more productive, perhaps accepting lower standards of living, and perhaps enjoying a less luxurious level of government. The deflationary effect of higher taxes, in reducing consumption, is negated, wherever possible, by those with the power to restore their net income.

Perhaps the best way of running a planned deficit to counteract a recession is to make a "one-shot" refund of a percentage of the previous year's taxes. Records are available, and the dose could be repeated if necessary. But leave tax rates unchanged, since lowering them means a great time lag and perhaps political unpleasantness before they can be raised again. Increasing the total of government expenditures to fight recession has two disadvantages. Firstly, it may involve public works spending, which will not have an impact on the economy until the need is long past. In fact it might add to the next bout of inflationary pressures. Secondly, increasing the total of government expenditures tends to "build in" a level of government for all time, and it may require sereval years real growth and some inflation to bring the budget back into balance again.

I would go so far as to suggest that when government expenditure, even if raised by taxes, passes a certain percentage of GNP, the offsetting efforts of the people and corporations to rebuild their "take home" income, will eventually cause an inflationary expansion in dollar GNP, so that the government share will recede. Where that maximum percentage is, in peacetime, no one can be sure, but we may be at or past it already. It could be anti-inflationary to set about shrinking the place of government in our lives.

The Bank of Canada

There is little doubt that the Bank of Canada would have been more successful in dampening the 1955-57 inflationary price rises had it enjoyed some powers over the expansion of credit by finance companies. Some minor improvement in the next round may be achieved by such legislation, if passed soon.

The principal culprit in the next bout of inflation is however the monetary expansion caused by recent government deficits. Since the Bank of Canada cannot make fiscal policy, its influence in this field is only a reflection of the persuasiveness of the Governor and the receptivity of his audience, in the persons of the Prime Minister and Minister of Finance. I do not doubt the Governor's persuasiveness, nor his erudition in matters of finance, and there

is no doubt that the officials of the Finance Department are equally expert and available with advice. Yet, since this is a Cabinet-system democracy, the final decisions are made by Cabinet, or the caucus.

The Bank is not only powerless to prevent deficits; it is even charged with the job of debt management, which may entail, as was the case in 1957-58, substantial monetary expansion.

If the Bank could be left with full authority as monetary manager, with the debt management job given back to the Finance Department (as it rests in the U.S. Treasury, rather than the Federal Reserve Board) there would be more of an arms-length situation in which the Bank could display greater resistance to monetary expansion. Deficit financing would not be just handed to the Bank with the story "This is your job. You finance us", but the approach would be closer to "This is our problem and we ask all the help you can give us". This however is not a perfect solution, and there can not be one, for the Bank, a creature of government, cannot be completely independent of its creator—the government.

Many countries limit the security holdings of their Central Banks, whether acquired directly from the government or in the open market. Obviously Central Bank buying creates new money. Some countries' laws prohibit open market operations to assist in the financing of government deficits, while others prohibit Central Bank acquisition of bonds during inflationary periods (A). Many of these restrictions are especially aimed at long term bond purchases, probably on the thesis that buying very *short* term bonds is an exchange of new money for issues which are but a short period removed from being money themselves. *Long* bond buying by Central Banks is a creation of new money in exchange for an asset which is years away from being a claim for money. To put it another way, a debt containing so many long and so many short bonds could be owned in two different ways. If the Central Bank had all the shorts, the public all the longs, the public's "liquidity" is not enhanced by them owning a mass of assets (in addition to their bank deposits) which are but a few weeks or months away from being claims on the government for new money. If the Central Bank owned most of the long debt, the public most of the shorts, the public's "liquidity", is materially enhanced, while the Central Bank owns the most illiquid of assets to offset their currency and deposit liabilities on the other side of the balance sheet. If carried too far, the concentration of short debt in public hands (and the long debt in the Central Bank) means that the countries' creditors (ex the Central Bank) are in a position to enlarge the money supply, at maturity of their claims, by merely refusing to buy refunding bond issues—and assuming that there are not enough new buyers for government new issues—forcing the Central Bank to create the money.

Canada once had restrictions on Bank of Canada bond holdings. As amended in 1936 and 1938 they placed no limit on bond holdings under two year term, but bonds over two years were not to exceed 50% of the Bank's note and deposit liabilities, with the over-ten year portion not to exceed five times the paid up capital and rest fund. As of today this would mean the Bank could hold $1,320 millions of over two-year bonds, of which $150 million might be over ten-years.

Actually the Bank owns about $2,188 millions of over two-year bonds, of which $1,325 millions are over ten-years in term, for all limitations on its bond holdings were removed in 1954. (B)

(A) See Peter Fousek, Foreign Central Banking; Fed. Res. Bank of New York, 1957, pages 31-32.

(B) See E. P. Neufeld, "Bank of Canada Operations", Toronto, 1958. Footnote to page 59.

We could hardly restore the old rules, for the Bank would have to sell off over a billion dollars of over ten-year bonds, and this would be impossible in the current market. They may well have an objective of exchanging these long bonds for short terms as the opportunity arises.

If however, the original restrictions were intended to serve a purpose, and I would assume that they were, consideration might be given to the imposition of new limits. They might be repealed, just as the old ones were, but there has been growing awareness of the dangers of inflation since 1954, and we might expect a close and critical examination by future Parliaments of any attempts to remove restrictions. It would be a red light, and Parliament could examine the Governor to see if the change was merited for reasons of monetary policy, or for reasons of debt management connected with the financing of a large government deficit.

Central Bankers might not ask for arbitrary restrictions on their own judgment, but so long as their judgment can be thwarted by fiscal policy, the restrictions might prove a blessing in disguise. They would be one more hurdle (whose removal would involve the Governor telling Parliament the story) protecting the Bank from government induced, deficit inspired, inflationary pressures.

The Money Supply

Since I believe that the use of money as a tool for various aims, since 1934, has generally resulted in monetary expansion, which has permitted or caused rising prices, we should look to some form of control over the money supply. Ideally, if we could "freeze" the money supply, we might soon find that we had a gradually increasing purchasing power per dollar. However since the money supply consists not only of currency, but also a six-fold larger supply of bank deposits, and numerous forms of quasi-money—such as a packing house cheque may circulate for weeks in the back areas—, any such "freezing" could only be approximate. There is also the other part of the money equation, and this is velocity, a variable which would be immune to legislation. A really proper "freeze" might require going back to the gold standard, with a specified gold reserve behind the paper money. Since government could not "counterfeit" gold, as it can enlarge the supply of paper, substantial monetary expansion would require that the legislation setting the gold reserve ratio would need to be amended and there would be sufficient debate in Parliament to alert the public. With the present system, there is a responsibility lodged in Bank of Canada to regulate money supply, which the government can quietly nullify by running a deficit which may require the Bank, as debt manager, to enlarge the money supply. If charged with such expansion of money supply, the government can deny responsibility for it, since monetary policy is the Bank of Canada's job. Mr. Abbott's remarks on Page 492 of the 1954 Banking and Commerce Committee Report, (also Pages 3124-5 of this Session of the House of Commons Hansard) show how these two precepts can work. (A)

Nevertheless, even under the present system, there would be considerable merit in having some sort of nominal ceiling on total money supply, currency and bank deposits, which could only be raised by Parliament, if in session, or by order-in-council, to be debated in Parliament later, if Parliament is not sitting. Parliament (and the general public) have a right to know if the money supply is being increased, and why, before they grant a rise in the ceiling. Certainly they would have wanted to know the reason why a reduction in the gold backing for currency was desirable a generation ago. Just because there is no standard other than the "status quo", is no reason for lack of explanation

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(A) See also article on page 1, Financial Times, May 8, 1959, by E. J. DeSeau.

of proposed changes in that "status quo". From reading old Bank of Canada reports, it would appear that the Bank has often explained the causes of most monetary expansion, after the event. It might have been more enlightening, in 1958, to the average citizen, if such expansion was subjected to parliamentary examination and questioning.

If there were such legislation, with the Governor of the Bank being called to testify each time a rise in the ceiling was requested, we would learn a great deal. We might also gain greater appreciation of the role of deficits in the watering of our money supply, and parliament might take a different view of deficits if they also had to vote again for what is in effect the "printing" of the money.

This suggestion is not new. Mr. J. M. Macdonnell wanted a legislative hurdle to be erected, which would publicize in Parliament any steps to enlarge money supply, and so proposed in the 1954 Banking and Commerce Committee. According to page 707 of this report he even moved an amendment, (seconded by Mr. Fleming) effectively prohibiting an increase of more than 10% in money supply. The actual ceiling would have applied to notes of and deposits at Bank of Canada. It did not pass. If brought up again today, it might not obtain the support of Bank of Canada, for it would subject their money-management to the decisions of Parliament in greater detail than now prevails. Yet, as Mr. Abbott suggested, they are not free agents anyway, if there is a massive deficit.

We should reflect that, if we are to have continued managed money, it is essential that the public have faith in the stability of purchasing power of the money itself. If money management is to be kept a mystery, nominally residing in the Bank of Canada, subject to that body having to create money willy-nilly, as Government runs a deficit, then there is danger of growing public distrust in both the money and in all instruments expressed in money, particularly Government bonds, especially if prices keep rising year by year.

We all know that those who owe money have benefited by inflation, and that the Federal Government is the largest debtor. We have even been told officially, that the current burden of debt is not as large, relative to GNP, as it was in 1946, when every school boy knows that the price index has risen from 75 to 125, thus blowing up GNP by 70%, or deflating the dollar by 40% of of its 1946 value. How close is this to exhibiting pride in both our real growth and our inflation too? The behaviour bond markets, in both Canada and the United States, betrays both a growing distrust with money as a store of value, and a growing skepticism of official soothing statements. To rehabilitate public confidence, in money, money managers and government, we must first restore faith in the intent of government to keep money's buying power stable. Legistlation, regarding money supply, would be a step in the right direction. It would have more effect on public confidence than platitudes against inflation, uttered almost simultaneously with actual monetary expansion.

Housing, and Inflationary Force 1954-58

The Bank of Canada 1958 report shows that direct loans by Central Mortgage and Housing constitute a large portion of total mortgage loans, both conventional and NHA. In 1955 they were $18 million out of $892 million, about 2%, and in 1956 they were $20 million out of $700 million, about 3%, in 1957 they rose to $235 million out of $752 million, about 30%, and in 1958 were $389 million out of $1,199 million, about $32%. In these two latest years, because government was running a deficit, and financing it by monetary expansion, housing was perhaps more inflationary than in the earlier years, when monetary expansion in the banking system was partially financing housing. Perhaps there was little net difference.

The point is that this industry has been nurtured by monetary expansion of one sort or another since 1954. Later this year, when the "squeeze" on banks from expanding commercial loans becomes more intense, the banks may cut down on housing loans. May the Bank of Canada, at government request, moderate its monetary restraint to permit the banks to enlarge their mortgage lending again, while clamping down tight on the banks' other activities? May a cessation of bank lending drive CMHC into taking up the slack? A larger government cash deficit from CMHC lending means that we may have more monetary expansion.

Next to transfer payments, this is one of the largest post-war growths in government cash out-lays. The rising cost of land may be partly due to the availability of finance for housing en-bloc, so that builders can assemble, service, subdivide and sell at a large profit, large tracts—knowing that the ultimate financing will be available from CMHC.

I believe that as an anti-inflationary move, steps should be taken to withdraw the government as much as possible from the housing field, and let housing compete, on a conventional basis, for available existing savings. (As it is, the NHA loans, apart from those made by CMHC, have proven fairly good competition at the institutional level with the government's own long term bonds, leaving one or the other to rely on monetary expansion). I would question the existence of a housing shortage among those able to make the necessary down payments. There is indeed a housing shortage among those unable to pay conventional terms, just as there may be a shortage of fur coats on the prairies, if the desire to own one, and the "need", because of the climate, were the criterion, rather than ability to pay. This is another matter, but many of the home-buyers should not be receiving a subsidy from the taxpayers by way of favourable interest arrangements, while also forcing the government to enlarge the money supply, which promotes repayment in debased coin.

If steps are not taken soon to reduce this incubus in prosperous times, it may prove even more troublesome and inflation prone in years to come.

Year	*000* *Housing Starts*	*000* *Net Family Formation*
1953	102.4	90.6
1954	113.5	86.0
1955	138.3	74.4
1956	127.3	83.6
1957	122.3	103.6
1958	164.6	75.8

(Sources: Bank of Canada Statistical Summary and CMHC Cdn. Housing Statistics.)

Central Mortgage and Housing's Brief to the Gordon Commission thought that the 5-years 1956-60 would show net family formation of 348,000, but the 1961-65 period 414,000, the 1966-70 period 500,000.

The People and Parliament

Perhaps it is permissable to change an old saying and observe that "we get the kind of money we deserve".

The fiscal and monetary policies which have been used to give us, at various times—a cheap money policy—a policy to promote maximum growth—a policy to maintain full employment—a growing welfare state, must all have had popular consent.

To some degree the consent may have been obtained by conveying to the people the idea that these boons could be obtained at no cost—at least to the recipient. Probably promises of "more from Ottawa" would still be popular, for there is no lack of demand evident for public funds.

It is true that Keynes once spoke of "The superior political power of the debtor class", but there are many who believe erroneously that this is where their interests lie, forgetting that they are the owners of insurance policies, or pension plans, or bank deposits, which will suffer, if fiscal and monetary policy is oriented, wittingly or otherwise, in the direction of depreciating money. When this conflict of interest is realized, both by the people at large, and by their elected representatives, we may expect to see a closer examination of proposals for government action, whether they are to be covered by taxes, or by borrowing.

The question which should be asked is "Will this measure, however desirable or beneficial to this or that class, have the effect of lowering the purchasing power of our dollar?"

One class of voter, however he may cast his ballot, casts another kind of vote, every time he invests a dollar. The deterioration of government credit, here and in the United States suggests that the "votes of confidence by investors", individual and trustee, in the way in which Federal Governments operate, are growing fewer. Government bonds are becoming more difficult to sell, even at higher interest rates. More people realize that the old, wartime solution, of inflating the money supply no longer merely tends to drive interest rates down—it also creates more apprehension among the saving classes and their trustees.

This class of voter used to be the backbone of our society, and he is growingly aware of the erosion of money, increasingly wise to the operations of money managers, and the victim of a progressive income tax, which leave no illusions of the government giving him anything for nothing. His judgment tells him that there is something wrong with the management of our affairs. His investments in real estate, or common stocks may be misguided at today's prices, but they are not being made because of the boundless optimism of former booms. Rather they are a flight from money or money contracts on the part of a portion of the saving class. If the tendency spreads to the greater mass of people owning insurance policies, savings bonds, or bank deposits, it would be unfortunate.

So far these people are not numerous enough to influence the actions of our legislative bodies, in the direction of a shrinkage in the place of government in our economy. They must pay their taxes, and in some degree are successful in passing them on in the form of higher prices. They can, however, withdraw their savings from the pool of funds available for lending, and invest them in assets other than contracts payable in money. As public enlightenment spreads, they may become more numerous, perhaps enough so to become a political force.

One of the Chicago newspapers recently published a sheet of questions about inflation and people's attitude towards it, with the suggestion that, if they were against it, the readers should forward the completed sheet to their Senator. I understand that Senators Douglas and Dirksen of Illinois have received so far some 65,000 "letters", if this document can be so styled.

I believe there is a similar latent attitude extant among the Canadian people, which only awaits some leadership. The findings of your committee will no doubt increase public understanding and strengthen the forces which want a stable dollar, even at the expense of fewer benisons from government. Let us hope so, before we not only alter our system of government and finance beyond recognition, but lose our export markets too. We have been dishonest with ourselves for too long, believing that we could get something for nothing.

Excerpt from a Speech delivered before the Georgia State Bankers Association by *James K. Vardman, Jr.*, President, the Bank of Albany, Albany, Georgia, who is a former member of the Board of Governors of the Federal Reserve. (April 16, 1959)

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One of the blackest clouds that hangs over us is the potential takeover by the Federal Government of all private banking, either by a straight jacket pattern of controls of rates and services, or by direct Federal ownership. I can feel rather than see, some of the smiles of derision that welcome such a statement; but I say to you with complete sincerity that, in my considered opinion, private commercial banking is today, closer to total Federal Government control or ownership than it has been at any time since 1933.

Why is this true? There are several political reasons for this Socialistic trend; but the strongest impelling force is the certainty of tragic inflation and the imposition of total Government controls. Once this transpires, private banking will pass to Federal domination—and remain in that status for many years.

We have not as bankers, nor have our business leaders, nor our public officials—none of them—presented a workable plan for the prevention of inflation—nor has anybody been wise enough to figure out any such plan, so far as I know.

As of now, all the Federal Reserve will do, or the Treasury can help do, is to take actions which will defer, moderate, and spread out the inflationary impacts so that the natural and corporate populations can have some time to adjust themselves to changing values. You may call this creeping inflation or any other coined phrase you choose, but the result will be the same. And the only alternative under our present law and system of Government, is a stop-spending and tax program on the part of Government, and a discount rate and reserve requirement from the Federal Reserve that, together, will stop progress and bring about the bust quicker than if nature is allowed to take its normal course.

Of course, another alternative is to change the present law and Government system and put into effect that bureaucrat's dream—a complete control plan of wages, profits, spending, and production, and allocation of basic materials. That sort of program would definitely end the boom and bust cycle—and also all personal freedom and liberty.

Second Session—Twenty-fourth Parliament
1959

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE
on the Threat of Inflation in Canada

No. 5

THURSDAY, JUNE 18, 1959

THE HONOURABLE CLARENCE V. EMERSON,
Chairman

WITNESSES:

Canadian Pulp & Paper Association: Mr. R. M. Fowler, President. Mr. A. M. Moore, Economist.

Sun Life Assurance Co. of Canada: Mr. E. R. Alexander, Vice President, Finance. Mr. J. W. Popkin, Economist. Mr. W. J. McCarthy, Assistant Treasurer.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

THE STANDING COMMITTEE ON FINANCE

Chairman: The Honourable Clarence V. Emerson.

The Honourable Senators:

*Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Buchanan
Burchill
Campbell
Choquette
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Croll
Dupuis
Emerson
Euler
Farris
Fraser
Gershaw
Golding
Haig
Hayden
Higgins
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Power
Pratt
Quinn
Reid
Robertson
Roebuck
Savoie
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
Wall
White
Woodrow—50.

**Ex officio* member.

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, TUESDAY, April 28, 1959.

"Pursuant to the Order of the Day, the Senate resumed the postponed debate on the motion of the Honourable Senator Wall, seconded by the Honourable Senator Leonard:

That the Standing Committee on Finance be instructed to study the threat of inflation in Canada;

That the Committee have the authority to send for persons, papers and records, and to report from time to time.

After debate, and—
The question being put on the motion—
The Senate divided and the names being called they were taken down as follows:—

CONTENTS

The Honourable Senators

Baird
Basha
Beaubien
Bois
Boucher
Bradette
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Croll
Dupuis
Euler
Farquhar
Gershaw
Golding
Grant
Hodges
Hugessen
Isnor
Jodoin
Lambert
Lefrançois
Leonard
Macdonald
McGrand
Petten
Pouliot
Pratt
Reid
Robertson
Roebuck
Savoie
Smith (*Kamloops*)
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Westmorland*)
Vaillancourt
Veniot
Wall
Woodrow—40.

NON-CONTENTS

The Honourable Senators

Aseltine
Brunt
Buchanan
Emerson
Gladstone
Haig
Higgins
Horner
MacDonald
Methot
Pearson
Quinn
Sullivan
White—14.

So it was resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, June 18, 1959.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.00 a.m.

Present: The Honourable Senators; Emerson, *Chairman;* Aseltine, Beaubien, Bouffard, Burchill, Hayden, Higgins, Horner, Isnor, Lambert, Leonard, Macdonald, McKeen, Molson, Pearson, Pratt, Reid, Savoie, Smith (*Queens-Shelburne*), Stambaugh, Taylor (*Norfolk*), Thorvaldson, Turgeon, Vien, Wall and Woodrow—26.

In attendance: The official reporters of the Senate.

Consideration of the order of reference of April 28, 1959, was resumed.

The following were heard on behalf of the Canadian Pulp & Paper Association:

Mr. R. M. Fowler, President,
Mr. A. M. Moore, Economist.

The following were heard on behalf of the Sun Life Assurance Company of Canada:

Mr. E. R. Alexander, Vice President, Finance.
Mr. J. W. Popkin, Economist.
Mr. W. J. McCarthy, Assistant Treasurer.

Further consideration of the order of reference was postponed.

At 12.30 p.m. the Committee adjourned until Tuesday next, June 23rd, at 10.15 a.m.

Attest.

John A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, Thursday, June 18, 1959.

EVIDENCE

The Standing Committee on Finance, which was instructed to study the threat of inflation in Canada, met this day at 10 a.m.

Senator Clarence V. Emerson in the Chair.

The CHAIRMAN: Honourable senators, please come to order.

We have two witnesses this morning from the Canadian Pulp and Paper Association and three from the Sun Life Assurance Company of Canada.

I am going to call first on Mr. Fowler, President of the Canadian Pulp and Paper Association to present his brief. Mr. Fowler is accompanied by Mr. A. M. Moore, an economist. Mr. Fowler and Mr. Moore will be glad to answer any questions after the brief has been presented, if honourable senators don't mind.

We also have with us this morning Mr. E. R. Alexander, Vice-president, Finance, of the Sun Life Assurance Company of Canada. He is the witness. He is accompanied by Mr. J. M. Popkin, economist, Sun Life Assurance Company of Canada, and Mr. W. J. McCarthy assistant treasurer of that company.

We will now hear Mr. Fowler.

Mr. R. M. Fowler, President, Canadian Pulp and Paper Association of Canada:

Mr. Chairman and honourable senators, I am very grateful to you for saying that I would answer all questions. I should correct it by saying that I will attempt to answer them. Mr. Moore, who is an economist with our association, came along with me this morning to perhaps answer some of your more technical questions. I have a brief, and if you will, I will read it first and then we will have the questions.

I should begin by stating that I am, for the moment, president of the Canadian Pulp and Paper Association.

1. I am a lawyer by profession. I am not an economist. While I have had considerable exposure to the practitioners of this gloomy science, I should make it clear that I can easily become out of my depth in the complexities and technicalities of economic theory and I only hope the committee will bear this in mind when we come to the time for questions.

I should also make it clear that, in the time available since your chairman's request for me to appear before you, it has not been possible to prepare this memorandum and circulate it for detailed approval by the members of the two Associations. I have consulted when I could, with individual members and have had helpful suggestions from several of them. But I must take responsibility for the content and format of this statement and any mistakes should be charged to me personally.

2. As a short preliminary excursion into general theory, I might say that I began this memorandum by asking myself if we had, in fact, inflation in Canada today. I know that many of our leading bankers and financial experts have been saying for many months that inflation is today our greatest national danger, and certainly they should know. But I still find it hard to recognize in today's situation the conditions that existed during the war when I worked for the Wartime Prices and Trade Board.

At that time, the classical definition fitted the facts—there were too many dollars chasing too few goods. Today there is no shortage of goods; most Canadian industries, including the pulp and paper industry, have expanded rapidly and have large amounts of productive capacity lying idle. We could this year produce 1,500,000 tons of newsprint and 500,000 tons of pulp, plus large amounts of fine paper, paperboard, wrappings and specialties more than we are likely to be asked to produce. On the other side of the equation, the trouble seems to be not too many dollars but too few dollars; or at least too few purchasing dollars that are ready, willing and able to put to use the productive capacity we now have.

The general statistical indexes which are usually regarded as appropriate measures of inflation show a considerable stability of prices in recent years. The latest general wholesale price index (April, 1959) stands at 231.2; it was 227.4 in 1957, 217.0 in 1954, 240.2 in 1951. The general consumer price index stood at 125.4 last April, and was 121.9 in 1957, 116.2 in 1954 and 116.5 in 1952. If these are valid yard-sticks, it is not a situation of rampant inflation—creeping perhaps, runaway inflation no.

However, in spite of the fact that the familiar definitions do not seem to apply and the statistical record does not create undue alarm, there is today in Canada an uneasy feeling, widely held that something is wrong. The stock looks too high; the bond market seems to reflect lack of confidence in government securities; it is feared in some quarters that there has been a too-rapid expansion of the money supply; governments at all levels are encountering deficits in a period of economic expansion which is almost a period of boom. It adds up to a fear that Canada (and perhaps also the United States) is heading for economic trouble.

In all these circumstances, have we inflation today in Canada or not? Is the popular clamour about inflation justified? Are we calling our trouble by the wrong name and likely as a result to deal with it in the wrong ways? Should we define our terms more accurately and thus get at the real causes of economic uneasiness in Canada and find solutions which may be eluding us because we talk too vaguely and generally about inflation?

I venture to suggest to the committee that answers to such questions might be the greatest single service that your investigation could make. On the assumption that your inquiry is not confined to a study of inflation in a strict or narrow sense, I will try to give you some of the facts and discuss some of the current problems of the Canadian pulp and paper industry.

3. We are—as we have said many times—Canada's largest industry. Total production is 10¼ to 10½ million tons of all products, with an annual value approaching 1½ billion dollars. About 98 per cent of newsprint and 90 per cent of market pulps are exported, with an export value of more than a billion dollars annually. Newsprint is Canada's largest export by a considerable margin and pulp is the fourth largest item on the list. Pulp and paper exports account for about 21 per cent of all Canadian exports and about 30 per cent of Canadian exports to the United States.

The Canadian pulp and paper industry employs about 65,000 people in its mills. In addition it has some 240,000 seasonal woodsworkers including farmers who spend some part of their time cutting wood on their own holdings

for sale to the industry. This seasonal employment is equivalent to about 55,000 man-years annually. Thus this industry provides a total of about 120,000 year-round jobs. Its total wage bill is about half a billion dollars annually. That includes some allowance for the cost of wood, which is mostly wages. The capital employed in this industry exceeds three billion dollars. Pulp, paper and pulpwood provide 10 per cent of all railway car-loadings in Canada and large shipments move by ships and trucks; the total transportation bill is about $250,000,000 annually. The pulp and paper mills consume about 20 per cent of the total consumption of electricity in Canada, and are the largest users of hydro-electric power by a wide margin. The estimated annual tax bill (including taxes and other payments to governments) is over $220,000,000.

But perhaps I can ask the members of the committee to refer to this recently-published set of reference tables that we mailed to all members of the Senate last week. If you need any more copies, Mr. Chairman, I can easily get them. I think the figures here will answer most of your questions as to statistics concerning the pulp and paper industry.

4. It should be said, however, that we are not the only producers of pulp and paper products in the world. I sometimes think we forget this fact. The American industry, while not as predominant in the U.S. economy, is approximately 2½ times the size of the Canadian pulp and paper industry. It is largely concerned with supplying the domestic market in the United States but has exports of pulps to overseas markets which slightly exceed our own exports overseas. In Scandinavia, total pulp exports to overseas countries are approximately twice as large as Canadian. In recent years, the share of world pulp markets gained by North American producers (including both American and Canadian mills) has declined slightly from 53 per cent in 1956, to 52.4 per cent in 1957, to 51.1 per cent in 1958. The Scandinavian shares have risen correspondingly from 47 per cent to 47.6 per cent to 48.9 per cent. These changes have no doubt been largely due to the relatively greater impact of recent economic recession in North America but it is also due to vigorous competition by Scandinavian sellers of pulps.

For newsprint, there is about 15¾ million tons of annual productive capacity in the free world. This is divided as follows: Canada 7.5 million, U.S. 2.4 million, Scandinavia 1.9 million, U.K. 870,000, other Europe 1.7 million and all others 1.3 million tons. At the present time total free world demand for newsprint is running slightly over 13 million tons. This means that there is idle productive capacity of about 2½ million tons and this idle capacity is fairly evenly distributed among the major producing areas. In the result all major producing countries are operating well below capacity, at levels of about 80 per cent to 85 per cent. For the past two years, after several years of rapid expansion of demand, the upward course of newsprint consumption was arrested and has only recently shown signs of resuming its upward trend. Even if normal growth rates return it is unlikely that average operating ratios will exceed 92 per cent until 1962. There is today no newsprint shortage and there is unlikely to be any shortage for as long ahead as one cares to look (apart from the impact of a major war which might create shortages of a quite different kind).

It is clear that there is much idle capacity in vigorous and experienced hands which will seek to find employment as new world demand develops or as Canadian producers fail to remain competitive in world markets. We have no automatic or easy route to maintain or expand Canadian exports of our principal export commodities. It will only be done by vigorous struggle in open markets against experienced and able competitors.

5. In recent years, prices of pulp and paper commodities have tended to fall in world markets. Fortunately the declines have not been as great as

in the disastrous price collapses of the thirties, which brought distress and ruin to many Canadian companies and communities and workers. The price levels on the North American continent have been fairly stable; those in other parts of the world (Europe, South America, etc.) have fallen more sharply from levels that were perhaps somewhat inflated during the shortage period that ended in 1957.

6. From this brief and sketchy review of the Canadian pulp and paper industry in world markets two comments on the subject of inflation may be made.

First, if we have in fact inflation today, it would seem that the prices of pulp and paper products have not contributed in any material way to a rise in the general price level or cost of living. Since 1957, pulp and paper prices have tended to fall, not rise—slightly as I have said. It is however a fact that since the war there has been a rapid and substantial expansion of this Canadian industry and to the extent that the investment boom in Canada since the war has been inflationary, the expansion of productive capacity to meet demands of Canada's pulp and paper customers throughout the world has been a contributing factor in that investment expansion.

Secondly, the existence of approximately 15 per cent to 20 per cent of idle capacity (which applies to newsprint and also to pulps and other pulp and paper commodities as well) is likely to act as a brake on inflationary tendencies within this industry. It is more possible and more likely that cost increases will be reflected in increased prices of the commodity produced, when the industry is operating at or near capacity. It is more difficult for an individual company to recover its cost advances if there is much idle capacity seeking employment.

However, these pressures operating in restraint of price increases can only be effective up to a point. They may avoid a price change in response to a minor amount of inflation in costs. But they cannot avoid price advances during a major inflation. No single industry, however large, can stand out against a major inflation. For many reasons, the Canadian pulp and paper industry fears inflation and believes in price stability. But there is no doubt at all that, if in fact we are in the midst of an inflationary period, pulp and paper commodities, while unlikely to lead price levels upward, will certainly have to follow them.

If the situation over the next few years is one of slow or creeping inflation, it may well be that the impracticability of recovering cost increases in the price will have a bad result for this industry and for Canada. Looked at solely as a problem of inflation it may seem a good thing that pulp and paper prices may be slow to rise. But the "squeeze" on company finances may have long-term results that are even more serious. In such a period, economies may be forced on the companies, which would curtail necessary expenditures on such things as silviculture, increased woods mechanization, research and mill improvement, and if this slowing-down on progress and development were substantial, it could have serious effects, on the long-term competitive position of this industry in world markets.

I think research is the best kind of illustration of that, Mr. Chairman. If because of this slow creeping inflation of costs, and inability to increase prices because of excess capacity and other things, it would mean that really short-term economies would be introduced into such things as research, then I think that we will not keep pace in the kind of competitive world in which we are living.

This next paragraph deals with the particular thing which you, Mr. Chairman, and Senator Leonard suggested I should direct myself to.

What is the effect of inflation in Canada on the competitive position of an export industry in world markets? The answer to this question is a difficult one and leads to problems which do not, at first sight, seem to be relevant to a discussion of inflation.

Obviously, the competitive position in world markets does not depend on Canadian inflation alone. It is a question of the relative pace of cost advances in the major producing countries. If, for example, costs in Canada and Scandinavia both doubled and prices also doubled, the competitive position, *as between these two* producers, remains unchanged. There is much to indicate that, since the war, the pace of inflation in Canada, has if anything been somewhat slower than that in other major producing areas. It is difficult, therefore, to contend that the inflation we have had so far has, in itself, prejudiced our competitive position as against, for example, the Scandinavian mills.

It may be, however, that the similar inflation in both Canada and Scandinavia has prejudiced the competitive positions of *both* producing areas in world markets. There have been substantial advances in costs of production—labour, transportation, chemicals, mill supplies and capital equipment. These have raised production costs and prices to levels which have made it economically possible for local pulp and paper industries to develop and expand. There have been many such examples of new capacity for pulps, newsprint and other papers in New Zealand, Mexico, Chile, Western and Central Europe and elsewhere throughout the world. In a number of cases these new mills are dependent on imported pulpwood and pulp for their supplies and frequently they are supported by local governments both at the promotion stage and afterwards by tariffs and other protective devices. No doubt there is a natural desire in many countries to have some local pulp and paper production and such developments on a sound economic basis will aid in meeting increasing world demands for pulp and paper. But uneconomic projects in countries that have no natural advantages for pulp and paper production are a restraint on the growth of world demands and some at least would not have been undertaken, and would not in the future be undertaken, had inflation in Scandinavia and North America not occurred. This is a rather different point from the usual one which comes out on this subject of inflation.

If it had occurred, or should occur, that Canada suffered inflation at a more rapid pace than occurred in other producing areas one would expect an automatic correction of the disparity by changes in the exchange rate on the Canadian dollar. This is not the way it has worked out. I realize that the problem of exchange rates is a separate and complex one. I venture to raise it now because it is of such vital importance to a large export industry such as pulp and paper and I relate it to the subject of inflation by stating that it is far from certain that, if we should ever need to deal with excessive or relatively high inflation in Canada, a correction automatically through adjustments in the exchange rate would be forthcoming. In recent years we have had a a substantial adverse balance on trade with the United States. The old rule was that an adverse trade balance operated to depreciate the currency, and thus made it more profitable to sell in export markets and less profitable for others to sell in Canada—thus tending to a better balance in trade. Instead, however, we have had a premium on the Canadian dollar for several years, caused by the heavy flow of investment capital to Canada. The pulp and paper industry has suffered from inflation of its costs to some extent and also from the burden of the exchange premium. Of the two the latter is the more difficult problem.

With nearly six million tons of newsprint and two million tons of pulps (as well as substantial quantities of other products) sold annually in export markets, for U.S. dollars or their equivalent, the annual cost of a 4 per cent exchange premium to the industry is of the order of $40 million a year. This large amount in Canadian dollars has come out of profits, and in turn has reduced the tax paying ability of Canadian producers (Between 50¢ and 55¢ out of each dollar earned goes to Canadian governments.). Moreover, it has made it less possible for a producer of pulp and paper to make his contribution to the fight against inflation—either by avoiding some price advances, or possibly achieving some price reductions. The exchange premium contributes to keeping Canadian export prices up and to that extent weakens the position of Canadian pulp and paper exporters in world markets.

I realize that in some respects the exchange premium may be deflationary; it reduces the costs of imported articles in Canadian dollars. But for the export industries I suggest to you it operates in the direction of inflation and at the same time weakens Canada's competitive position in world markets. I cannot venture to suggest steps which might be taken to reduce this burden of the exchange premium on the export industries. I would not suggest a return to formal exchange control which would probably be a cure worse than the disease. But if it were an accepted objective of Canadian fiscal policy that the Canadian dollar should be at par with the American much might be possible, by informal and varied means. Perhaps borrowings by municipalities, provinces and corporations in New York could be discouraged and domestic borrowing encourage in various ways. Perhaps steps could be taken, while recognizing the importance and necessity of a continued flow of foreign investment to Canada, to regulate its pace so as to avoid the dislocations caused by a high premium on the Canadian dollar.

These, I find, are very difficult problems which this committee is much more competent to deal with than I am. I thought I should bring to you for consideration this problem of the exchange premium and suggest that serious distortions in the Canadian economy are likely to result from a permanent or prolonged period of a high rate on our dollar. We face the paradox that the rapid expansion of some of our export industries caused some of our inflation since the war and consequently all Canadian export industries are in a less favourable competitive position than they would have been.

Now, this next section, Mr. Chairman, may to some extent have been overtaken by events, but perhaps I will read it anyway. Since I wrote it a new bill has been introduced in the House of Commons which deals with one of the subjects I am dealing with here. It does concern anti-combines legislation and its relation to inflation.

At the risk of introducing a contentious and rather crude note into this respectable debate, I would like to say a word about the possible effect of our anti-combines legislation on inflation in Canada.

First, I would like to refer to an interesting chart which appears at page 2 of the D.B.S. publication "Prices & Price Indexes" for February 1959.

Mr. Chairman, that appears at the conclusion of this brief.

This chart shows the services, food and non-food commodity components of the consumer price index since 1952. It may serve to show you where our inflation in the past seven years has occurred. You will note that the services index has risen sharply and steadily; the food index has shown considerable variation but has also tended upwards; the non-food commodity index has remained remarkably stable and stands today practically where it was seven years ago. This would seem to show that services and foods have mainly caused such inflation as we have had, and perhaps these are the areas to which the committee's attention might be directed.

My present purpose, however, is to point out the rather odd relationship between the chart and our anti-combines legislation. The services and foods are the areas in our economy where free competition has greatest sway and these prices have risen fairly steadily and substantially for seven years. It is in the non-foods commodities where the Department of Justice looks for, and sometimes finds, evil conspiracies in restraint of trade and yet these prices have on the average remained remarkably steady.

If one is a blind believer in the virtues of free competition this chart would be a cause for some concern. Such a believer might well be unhappy that competition was not "working" during an inflationary period and prices somehow did not rise. In any case, provided the indexes mean anything, if there were in fact in Canadian non-food industries some agreements, arrangements or understandings as to prices the result over the past seven years seems to have been to avoid inflation in this segment of the economy. And if you are seriously concerned about inflation, this would seem to be a good result, however deplorable it may appear to the student of classical economic theory.

Apparently during this period of rather mild inflation, the forces of restraint within industry have been enough to avoid inflation of prices in the Canadian non-food commodity industries. If we should be faced with serious and rapid inflationary pressures, I doubt if they would be enough, in the face of the limitations imposed by our anti-combines laws.

The average Canadian businessman wants stability of prices. Certainly he does not want to see a price collapse during a period of temporary recession. But he does not want either to see a rapid price advance during a period of boom. The popular notion that if businessmen could get together to discuss prices, they would only be interested in raising them is quite wrong. In this country any sound businessman would rather sell a larger volume of goods at a lower price. But in a period of inflation, when costs are rising and heavy demand exists, the danger is that individual action will seek to take full advantage of the situation by raising prices and more moderate manufacturers will feel compelled to follow.

In a really heavy inflationary period one man says "I am going to take all the market will bear". Immediately his profits will go up temporarily. At that point every other manufacturer, even though they feel it is perhaps an unwise and inflationary thing to do, and they prefer not to do it, they come under the pressure of their shareholders and of public opinion and all the rest of it and they go along.

So that I say, if inflation is a "detriment to the public" (to use the words of the Combines Act), it should not be a crime for businessmen to discuss it and try to do something about it. And I am quite unable to see how you can discuss inflation without discussing prices or how you can do something to restrain inflation without making some agreements which will abridge, in an effective way, the competitive forces of inflation.

It may be argued that this is a dangerous game to allow; that the government should do everything necessary to control inflation and prohibit voluntary industry action in line with declared government policy. I suggest that in practice in Canada, under our constitutional system, the government alone cannot control a serious inflationary threat. The tools it has are blunt and inadequate. It cannot, except in wartime, impose direct controls on prices and wages. It can do something—but not much—through fiscal and monetary policies; in practical policies you cannot overtax enough in good times to stop inflation without creating unemployment which is unthinkable. If a real effort is to be made to control inflation in Canada all possible tools must be used—government monetary and spending policies, taxation, public education (provided that, with the help of this committee, we can become clearer in our

minds as to what educational message we should be teaching) and voluntary collaboration between government and business and also between government and labour to restrain inflationary forces. Today, such collaboration by business with declared government policies to control inflation is impossible under the present concept of our anti-combines laws and their administration.

Mr. FOWLER: As I say, this last section may have been overtaken to some extent by the introduction of new legislation. It has just been put out and I have only had a chance to glance over it and I am not in a position to make any definite comment about it.

The CHAIRMAN: Thank you very much, Mr. Fowler. Honourable senators, we will throw the meeting open to a question and answer period.

Senator REID: Mr. Fowler, have you any competition from the Soviet in pulp and paper? I know there is a lot of lumber shipped from Russia.

Mr. FOWLER: Just by chance I happen to have some information on that matter, arising from a recent visit I had in Europe. I had dinner with a Finnish friend in Paris a few weeks ago. He is very close indeed to the Russian situation and he told me that at the present time he believes there is about 2½ million tons of production capacity in the Soviet Union for making pulp, which is the basic commodity.

Senator TURGEON: Did you say 2½ million tons?

Mr. FOWLER: Yes. That compares to our 10½ million in Canada and to roughly 30 million tons in the United States.

Senator BOUFFARD: What about Canada?

Mr. FOWLER: The Canadian figure is about 10 million to 11 million tons of basic pulp and paper. He said, according to the five, six or seven-year plan in Russia they will expand to 4½ million tons by 1965. By that time they will still be an underdeveloped country as far as pulp and paper production is concerned, with their kind of population. Notwithstanding this, they have a program of export of 200,000 tons of pulp into world markets this year, and they will increase that by 50,000 to 100,000 tons over the period of the plan. So, they will get up to 400,000 or 500,000 tons.

At the moment they are offering this in various world markets, and it is causing a considerable amount of dislocation, because it is always at $5, or $10 or $15 under the market.

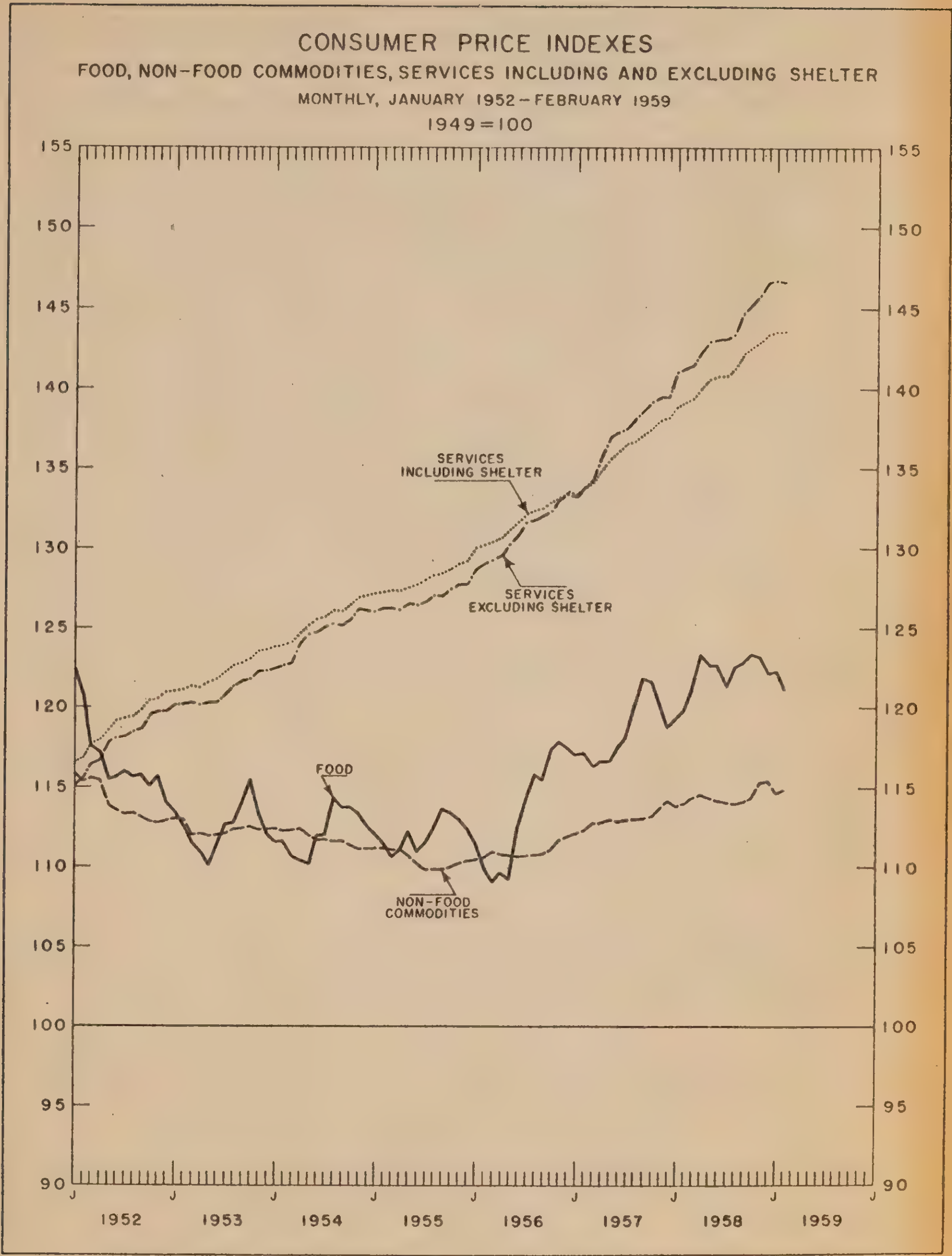
I asked my Finnish friend what was the reason behind this move, when they are already rather underdeveloped, of going into world markets. I found his answer rather interesting, and it may be of interest to you. I told him that I could conceive of two reasons: one was that they wanted to earn some foreign exchange to buy produce, and another was they wanted to be mischievous and cause trouble.

My friend's answer was that he did not think either was the real reason. He said he thought the Russians were determined to continue their contact with the west all across the commercial front, that they wanted to know what research was taking place, and that they were determined to allocate a certain amount to go into export market.

Senator REID: Their product at the price they are selling will affect the Canadian market?

Mr. FOWLER: As a practical matter, if it is going to come here, even in a limited amount, you have to accept it, and it has to come. Somebody is going to buy it.

Senator HORNER: Like other commodities, if they were using paper at the rate other countries are using it they would have less than they need for their own use.



Source: Prices and Price Indexes February, 1959, D.B.S.

Mr. FOWLER: If there was real trade with Russia, and it was a free world, I would think for a long time to come Russia would be an importer of things; but I don't really look upon this as a potential market for Canadian pulp and paper.

Senator SMITH (*Queens-Shelburne*): Mr. Fowler, is that because Russia has not got the stands of wood that are able to be cut economically?

Mr. FOWLER: No.

Senator SMITH (*Queens-Shelburne*): Or is it that power is too far away from the point where it is needed?

Mr. FOWLER: They have plenty of wood and plenty of power, and it is not inaccessible. It is a fact that pulp and paper use and consumption is a factor almost directly related to the standard of living and the standard of education. In both things the advance in Russia apparently is rather rapid—certainly on the educational front, so we are told. I would think there would be an upsurge demand for pulp and paper within Russia greater than they are equipped physically to produce it.

Senator SMITH (*Queens-Shelburne*): And in the future years, would our main competition as far as expansion of our industry in Canada is concerned, come from the Scandinavian countries.

Mr. FOWLER: There is still a potential expansion in Scandinavian countries. But the technology of this business has advanced materially in recent years. We have the best example of technological advance in the southern States where the weed specie southern pine has become now a tree that is quite useful for both newsprint and wrapping materials. So, I would suspect that there will be an increase in use of hard woods, and there are hard wood stands all over the world.

I don't want anyone to think that I regard the future of the Canadian pulp and paper industry as being a poor one. I just want to emphasize that we are not the only people playing in this game, and we have no automatic right in a share of the world market.

Senator SMITH (*Queens-Shelburne*): Is it so that at the present time our main competition for newsprint in Canada is with the United States itself, in view of the southern pine development and the possibility of hard wood.

Mr. FOWLER: Yes. I think that is the main upsurge, although there has been an immense increase in capacity of Sweden, Finland and Norway, and it is going to be greater.

Senator SMITH (*Queens-Shelburne*): But even so, our main competition will lie with the United States, if the inflation period that we might be into is a continental inflation. Inflation itself would not affect our prospects, if we were in a period where hard woods from South America and other world countries could come in.

Mr. FOWLER: I would question that statement, Senator Smith, for this reason: suppose you envisage a situation where Canada and the United States have a particularly healty dose of inflation over the next five or six years. In the course of that development if additional mills are built in the south, what would happen if that occurs might be that the southern mills would supply the local markets and we in Canada would be pushed out to a greater percentage into the world markets. If at that stage we had a lot of inflation, competitively we would be in a bad position as against the Scandinavian countries. So I don't quite agree with your suggestion.

Senator SMITH (*Queens-Shelburne*): I am glad to hear you say it.

Senator MCKEEN: Has the southern pine gone into the world market to any great extent yet?

Mr. FOWLER: To some extent, Senator McKeen, but not to a great extent yet. What happened in the south—if you are interested in hearing a brief comment on it—was this: They solved the technological problem of using southern pine for newsprint, and they had a substantial increase in their own economic development in the south. It became at one time a bigger market for newsprint locally, and the people were able to make it there. The moment those two things came together they were in the newsprint business in the south. The readjustment of markets took place mainly by them supplying the south, and Canada being pushed to meet the increased demand of the Pacific north-west, the north-east and overseas.

The CHAIRMAN: Is the world demand for newsprint declining, Mr. Fowler?

Mr. FOWLER: No. The demand for newsprint over the years has increased at a rate of about from 2 to 3 per cent a year. It had an even more rapid rate of increase in the years following the war; it had an almost continuous rate of increase from 1947 or 1948 to 1957. That continued at more than an average rate for that period, and then it paused for a while, and there it sort of flattened out. The rate of growth of newsprint demand in the United States and in other countries, particularly in those where there was a program for educational development, has been more rapid than on this continent. Of course, we are starting from a much higher level. But I don't think there is the slightest doubt in the world that there is a tremendous demand for newsprint.

Senator BOUFFARD: What is the producing capacity of the southern pine, compared with the situation a few years ago?

Mr. FOWLER: Are you talking about the amount of wood which they are still able to develop and use?

Senator BOUFFARD: I mean their capacity to produce paper.

Mr. FOWLER: With respect to newsprint, they have an enormous board and wrapping industry—the Kraft industry—down there, I am told.

Mr. MOORE: Newsprint alone went up from a quarter million in 1947 to 1.2 million in 1958, but most of the increase took place in the past five years.

Senator LEONARD: Is there not a limit on their potential increase in capacity due to the water situation in the south?

Mr. FOWLER: I think they do have a water problem. They have much more of a water problem in making a mill, for instance, in purification processes and so forth. I think there is also a limit on their extension of capacity on the wood side as well. I do not mean they have exhausted the wood supplies at all, but I am told that it is not today very easy to find a stand of southern wood which is adequate to support a completely new mill and you see that reflected in the cost of wood in the south. I have not the exact figure but it started out as a weed, it almost had no value on the stump, and it has now gone up steadily from that and the gap between wood costs in the south and in Canada has been steadily narrowing. So has labour costs. As the labour rate goes up it steadily narrows the gap between labour costs there and those in Canada. But there is one thing nobody can touch, and that is you cannot narrow the gap on transportation costs for local delivery. You cannot get away from that.

Senator BURCHILL: In the matter of increased production in the United States, are American laws respecting taxation, depletion and so on more favourable for increased production than the laws in this country?

Mr. FOWLER: There is no doubt at all, Senator Burchill, that the upsurge of American newsprint production capacity was to a very considerable extent

induced by American taxation laws arising at the time of Korea. They set out, and I think it is about this size of figure, and said we are going to build 475,000 or 500,000 tons of newsprint capacity and they were provided with an extra special depletion allowance for this kind of expansion and that tax device has led to a great many of the extensions of American industry. I think it may well be, although I cannot be categorical about this, that their allowances for such matters as forest conservation and silviculture and so on are somewhat more generous than ours. Perhaps Mr. Moore, who knows much more about taxation matters, could speak further to this.

Mr. MOORE: In the United States there are special fast amortization rules which benefit United States Pulp and Paper companies who own their own wood-lands. About one-third of the largest pulp and paper companies own extensive tracts, and in virtue of the Bailey amendment they may charge for tax purposes the replacement cost or the present-day cost of timber instead of the actual cost, and it is particularly advantageous to the west coast companies at the present time. This gives them a considerable advantage, and you can detect it by figuring their tax payments on a percentage of net profit before taxes. For the other two-thirds of the companies, particularly in the south and north, where they use a good deal of purchased wood, this is not much of an advantage at the present. But in 20 years it will be an advantage to the southern producers because they have been buying up a great deal of land and seeding it, and in 20 years they hope to be using at least 50 per cent of their own wood.

Senator SMITH (*Queens-Shelburne*): Is the taxation device used there to encourage industry both state and federal?

Mr. FOWLER: The one I am referring to is entirely federal.

Senator SMITH (*Queens-Shelburne*): What about the state income taxes?

Mr. FOWLER: I do not think you can get a single statement that would cover the state tax picture; there are some quite high and some quite low.

The CHAIRMAN: Mr. Fowler, you were speaking about Scandinavian pulp and paper production coming into this country. What increased effect will that competition have due to the ease of transportation through the Seaway?

Mr. FOWLER: I think it may expand the area into which Scandinavian pulp could reach. Actually the trend over recent years has been that certain special qualities of pulp that the Scandinavians make extremely well have been used for special purposes in this country. The trend has been that Scandinavia has supplied a greater proportion of the rapidly-growing European market, and while I do not say that Scandinavian pulp competition on this market is not serious, I think it is a perfectly legitimate form of competition we must be prepared to meet.

Senator MOLSON: What changes have there been in newsprint and pulp prices between 1954 and the present time? I ask that in connection with the consumer price index that you refer to on page 2 of the brief. Have there been any changes in pulp and newsprint prices during this period?

Mr. FOWLER: I would have to speak from memory because I must always say that in the association we do not deal with matters of price at all. Naturally, of course, we know what is going on.

The last advance in newsprint prices was in March, 1957, which was a $4 increase at that time. My recollection is from the date you mention there probably was a previous advance of $4 or $5 in that period. On pulps I would say that the price level today is lower than it was in 1954. This is because of the pretty heavy competitive position in the pulp market.

Senator **HIGGINS**: What is the price of paper per ton today?

Mr. **FOWLER**: The standard method of quoting it is delivered in New York, which is the largest market. The price there is $134 per ton, delivered in New York.

Senator **HIGGINS**: In 1950 it was $97 a ton, was it not?

Mr. **FOWLER**: I cannot be sure. It may well have been. In 1950 it was $105, and $1951 it was $111.

Senator **McLEAN**: Mr. Fowler, you referred to the question of exchange. Could you give us any indication how much that item costs the pulp and paper companies of Canada?

Mr. **FOWLER**: I have seen an estimate of $140 million.

Senator **McLEAN**: I was making a statement in the Senate and I wanted to be conservative—conservative in these figures I mean, if that money was saved it would be reflected back in your balance sheet?

Mr. **FOWLER**: I would say it would do that, yes.

The **CHAIRMAN**: And in taxation.

Mr. **FOWLER**: It would be reflected in taxation, it would be reflected in an advance or a reduction in the price of newsprint.

Senator **McLEAN**: In any event the Government would get in taxes 50 per cent of any saving?

Mr. **FOWLER**: That is right.

Senator **McLEAN**: You are under another handicap, that is you have to carry inventories and borrow money. Now, you pay at least one and a half per cent more for carrying your inventories in Canada than you would if you carried the same in the United States. That puts you at a disadvantage the same as it does us.

Mr. **FOWLER**: There is no doubt about that, with the extra cost of holding our inventories. This applies particularly to the east where you have hundreds of thousands of cords of wood standing in the stockpile from the spring drive to a year from then, when, on the average, half of it is there. This wood costs $20 to $30 a cord, and you can just multiply it out and obtain the total amount you have got hung up there. If you have to borrow that money, and the rates are high, then it is an added cost. There is no doubt about it.

Senator **McLEAN**: We have to borrow the money. We cannot get it any other way. The next point I want to refer to is the one you mentioned, that it is not the trade balance; it is the inflated dollar. Our trade has been in United States dollars, but some day the Russians may push the ruble. The trade balance was $190 million against us last year, so it was certainly not that. In other words, the trade did not inflate the dollar, so looking at that would not be a cure for it. But, there is the borrowing of municipalities, and that is where something might be done. The high interest rates that these municipalities have to pay is driving them to the States, to New York, where the borrowing is at the rate of $800 million a year. That is where I think the trouble is.

Mr. **FOWLER**: I think also, senator, if I may interrupt there, that there is a difference in the quality of the two kinds of debts. If you bring in investment capital for factory or a mine it is here, and it is pretty difficult to move the factory out and take the machinery away. Your problem in the future is, then, a problem of servicing that debt, and paying dividends and interest on it.

Senator **McLEAN**: You have no objection to that kind of capital?

Mr. **FOWLER**: No, I think that is healthy. And if we are going to develop this country I think we need that, but the other kind is going to have to be paid.

Senator **McLean**: We are simply working on the assets our forefathers left us.

Senator **Macdonald**: I think you stated that the exchange premium is of benefit to importers; is that right?

Mr. **Fowler**: I said in the sense that the exchange premium allows the importer to buy goods more cheaply then it is, therefore, a deflationary device.

Senator **Macdonald**: Then, so far as the export industries are concerned it operates in the direction of inflation.

Mr. **Fowler**: That is right.

Senator **Macdonald**: Now, what is the solution to this problem? Have you a solution as to how we can get the Canadian dollar on a par with the American dollar?

Mr. **Fowler**: Well, senator, as you know, I am no expert on financial matters, but I think I did suggest a direction.

Senator **Macdonald**: I would like to have your views. I am sure the committee would appreciate them.

Mr. **Fowler**: It seems to me that the first thing that might be done would be to, as I said in the brief, accept it as an objective of Canadian monetary policy that the dollar should be at par. I do not mean at a discount, because I think that will mean just as many distortions the other way. We should not simply say that we are powerless here and we can do nothing about it. If I am right in suggesting that there is a distortion created by having a long stretch of exchange rates at a substantial premium, then there ought to be something we can do about it. You start by looking to see what you can do. It seems to me that one method would be to take steps which will permit fewer of these municipal and provincial borrowings in the United States market at lower interest rates, and stop the bringing in of that flood of money.

Senator **Macdonald**: It is very difficult to prevent these municipalities from going to the States for loans.

Mr. **Fowler**: I do not think it would be very difficult to prevent the municipalities from going to the States for loans if there were loans available in Canada at equal interest rates.

The **Chairman**: The trouble is that we do not have that kind of money here to supply these municipalities.

Senator **Reid**: Are not municipalities more inclined to borrow money at the cheapest rate on behalf of their taxpayers than, say, the federal Government is?

Mr. **Fowler**: Yes, I would think so.

Senator **Horner**: Senator Macdonald made a very important point. You can see that that is a direct tax on the pulp and paper industry, and it also applies to the export of our wheat. If anything can be done to equalize the dollar as between Canada and the United States it would be a good thing.

Senator **Macdonald**: I think that we probably interrupted Mr. Fowler.

Mr. **Fowler**: Well, Senator Macdonald, it is the fact that I can get out of debt at one place, and I think anyone can, very quickly, but the first thing I suggest is a change of attitude so that we do not treat this exchange rate as something which is nothing but an end result of the economic forces, but that we should try to do something about it. That is the first acceptance of something which we have not had so far, and we should make it an objective of Government policy that the exchange should be at par. Having recognized that then you get into how you do it, and this is where the experts come in. I have talked to a number of them, and you get all kinds of views on it. There

are some who think it can be done, or that something can be done in this direction, but the first you have to do is to recognize your objective.

The other thing I do suggest vaguely in the memorandum on this subject, and it is that you have an adverse balance of trade which is a balance in the direction of a deficit on our dollar. We have an inflow of American dollars —mainly American dollars—in investment which operates to create a premium. Surely, there must be some way of getting these two things into better balance. We have to import quite a bit of capital to make up for our commodity deficit, and it seems to me that if we try to, not stop foreign investment but to put some regulation on the flow of it so that we do not get an indigestible meal every now and then it would be a good thing.

Senator LAMBERT: The answer to the problem lies in the servicing of the capital investments in this country from the United States. In other words, some day, sooner or later, this country has to pay interest in the form of exports of goods. If you check that development now it seems to me that in the very near future—in a relatively longer or shorter time—you are going to have to pay the piper anyway.

Mr. FOWLER: Yes, and I think the piper is harder to pay in regard to the fixed bonded indebtedness of municipalities than it is for productive assets.

Senator LAMBERT: Yes, but it is indivisible, if you want to look at it that way. It seems to me that the premium that Canadians are enjoying at the moment is not going to last too long if it comes to the point where the investors of funds in this country, especially American funds, except some return on them.

Mr. FOWLER: That is right.

Senator LAMBERT: When that showdown comes I think there will be a very rapid adjustment.

Mr. FOWLER: Yes. It may go the other way, and that will cause serious distortions in other areas.

Senator MCLEAN: Why not wait until we come to the crisis to which we are heading? You would like to see something done now?

Mr. FOWLER: Yes.

Senator SMITH (*Queens-Shelburne*): If we are through with that particular phase I have a question I would like to ask with respect to another subject. Perhaps this should be addressed to an economist. I was interested in the statement made in the brief that the Government alone cannot control a serious inflationary threat and then it goes on to say it can do something but not much through fiscal and monetary policies. If that is so, is the other side of the coin also true that the Government, through the Bank of Canada, if it has the power to control the money supply, an cause inflation?

Mr. FOWLER: It was not my intention to undervalue the power of fiscal and monetary policies in this field. Obviously I would think that if a really wild expansion of monetary supply continued for too long a period it would lead to inflation. In other words, there would be a real danger. What I am really trying to say is that I think these tools of fiscal and monetary policies are pretty blunt tools. If you want to regulate the economy over a period of years you are going to have to tax so much in good times that you will create unemployment, which is politically, I suspect, a pretty difficult thing to do.

Senator SMITH (*Queens-Shelburne*): I was interested in the statement because we seem to have been told by other witnesses here that since this Government has taken some steps which are leading towards a balanced budget that public confidence was being restored and that therefore it was a good thing. It was suggested that if this policy continued there would be a good chance of balancing our budget, I believe I read yesterday, by 1960. Is that not using a

fiscal policy in a pretty effective way? We were told that the money supply got out of balance in 1958 and that it is not advisable to increase the money supply until we have caught up with that situation. The impression I got was that the fiscal and monetary policies have quite an influence on both the cause and effect of inflation.

Mr. FOWLER: I have no doubt they do have an effect. I did not intend to minimize.

Senator SMITH (*Queens-Shelburne*): It was the phrase "not too much" that caught my eye.

Mr. FOWLER: Your phrase, senator, that public confidence is being restored in our fiscal system is an exceedingly important one. It could well lie at the root of some of the present uneasiness.

The CHAIRMAN: If there are no other questions I would like on behalf of the members of the Finance Committee and other honourable senators present to thank Mr. Fowler very much. Without any further ado we will call on Mr. E. R. Alexander, Vice-President, Finance, Sun Life Assurance Company of Canada, to present his brief.

Mr. E. R. Alexander (Vice President, Finance, Sun Life Assurance Company of Canada): Mr. Chairman and honourable senators, first of all I would like to thank you for this opportunity to appear before your committee and to supplement the briefs that have been presented by other representatives of the life insurance industry. I would also like to introduce my two associates. I might say that being only half as capable of answering questions as Bob Fowler, I have twice as many henchmen with me. They are Mr. J. W. Popkin, who is the Sun Life Assurance Company's economist connected with our Investment Department, and Mr. W. J. McCarthy, our Assistant Treasurer, who is primarily responsible for our government and municipal bond portfolio. His field includes a careful examination of fiscal policies and monetary policies.

This brief attempts, as I have indicated, only to supplement what has been said before by others or the insurance industry, and consequently it should not be regarded as a complete statement in itself.

My remarks centre around two principal themes which may be stated briefly as follows:

(a) Certain aspects of the Canadian economy make it particularly vulnerable to future inflationary trends.

(b) The dominant bias in our economy over the next decade is likely to be an inflationary one. Anti-inflationary measures likely to prove most effective over the long run are those that engage the self-interest of the various economic groups in our society.

Canada's vulnerability to inflationary trends stems from several characteristics of our economy that, while not unique in themselves, do in combination create a special sensivity to such trends. These characteristics relate to various aspects of our exposure to international developments and dependence on international good-will.

During the post-war period, Canada achieved remarkable growth and expansion with only a moderate degree of inflation and financial strain. This relatively favourable experience was due to several factors:

(a) The Canadian economy entered the post-war period in an extremely liquid state. This applied to virtually every economic group in the country. In all except recent post-war years, our chief problem was one of production—building up capacity, developing our resources and training personnel. Excessive liquidity minimized the financial problem of accommodating rapid economic growth.

(b) The financial problem was further eased by a large inflow of foreign capital—mainly from the U.S. and U.K. in the form of both direct and portfolio investment.

(c) Inflationary pressures in Canada were effectively snubbed also by a rising rate of imports that we were able, because of the large capital inflow, to finance without strain on our balance of payments position.

(d) World-wide shortages of the raw materials and products that Canada could export in quantity made availability rather than relative cost of production the key determinant in large areas of our export trade.

(e) Of tremendous importance throughout the period in minimizing the financial problem was the great confidence, displayed particularly in international financial and business circles, in Canadian fiscal and monetary policy.

With respect to financial liquidity the picture is radically different today. While Canadians continue to save at record rates, the demand for funds still exceeds the amount of domestic saving and there is no early prospect of achieving a balance. Furthermore, excess liquidity has gradually been absorbed into long-term commitments. At the same time, there has been some decline in the inflow of capital funds. In the financial sense, therefore, our economy has lost elbow-room. Under such conditions even a moderate degree of inflation, or a general expectation that some degree of inflation is inevitable, can have a damaging effect on the operation of the financial markets.

In the past, the problem of financing Canadian expansion has been masked by large capital inflows, mainly from the U.S. and U.K. There are several reasons for believing that capital inflow will play a smaller part in financing Canadian expansion in the immediate years ahead.

1. The shift occurring in capital expenditures from business to social capital makes greater demands on Canadian resources not only of men and materials but also savings. To an important degree, resource development has been undertaken to provide material supplies for American industry and capital from the U.S. played a large part in financing such expenditures. Recourse to foreign financing for social capital expenditures carries with it considerable risk for the borrower and is not likely to offset fully the declining flow of foreign capital to the business sector.

2. Expanding opportunities for the profitable investment of funds in other foreign countries, particularly Europe, seem likely to slow the flow of funds into Canada.

3. Foreign investor uncertainty with regard to fiscal trends in Canada and concern with general government criticism of the role of the foreign investor in the Canadian economy have undoubtedly contributed in some measure to slowing the inflow of capital.

A lower rate of capital inflow could, in the absence of a large expansion in exports, impair our ability to finance imports on a scale that would be effective in snubbing inflationary trends.

There is obviously no single or easy answer to the financial problem. There is I submit, however, one indispensable ingredient to any fruitful approach to the problem, and that is a policy, firmly announced and consistently pursued, to break the current inflation psychology and to hold inflationary tendencies in check.

While there is reason to be optimistic that over the long run world demand for Canadian materials and products will be in a rising trend, it is clear that we face an intermediate period of less insistent demand and stiff competition. In such a period relative costs of production rather than availability will be a more important determinant of the level of exports.

The Canadian cost structure is particularly sensitive to inflationary trends because of the relatively large percentage of Canadian production priced at the volatile industrial materials level. Under inflationary conditions, industrial material prices rise faster than general prices—almost twice as fast. Profits in the resource industries correlate with price trends in these industries and wage rates rise more rapidly when profits are expanding. Thus in an inflationary period wage rates tend to rise further in such industries and tend to set the pattern for a large segment of Canadian industry. The difficulty arises from the fact that wage rates do not decline with a downtrend in profits or in a period when prices are stable or declining. The net effect is to write into the Canadian cost structure not only the full effects of a general price inflation but an additional increment as well.

Concern with this particular aspect of our economy may seem ill-timed in a period when we are in fact suffering from sluggishness in the demand for our raw materials. However, the current pace of business improvement in North America, particularly the United States, coupled with signs of business improvement in the major industrial countries abroad has already been reflected in a rising trend of industrial prices. In my view we cannot be complacent about the prospects for general price stability much beyond this year.

One of the characteristics of the post-war Canadian economy has been the continuously high proportion of our gross national product that has been devoted to capital development. Looking into the future, if we can believe the forecasts of the Royal Commission on Canada's Economic Prospects, this will continue to be the pattern. It is generally recognized that continuation of a high rate of capital development and improvement is essential if Canada is to grow at a rate sufficient to employ prospective resources of men and materials and if our economy is to remain competitive in domestic as well as foreign markets. Inflationary trends threaten the realization of plans for capital spending in several ways:

1. They greatly inflate the cost of construction and machinery. This is illustrated by the experience in the post-war years in which prices in the construction and machinery industries increased from 5½ - 6% on a yearly compound basis compared to an increase in the consumer price level of about 2½%.
2. The shift in the composition of capital spending from the business to the social capital sector aggravates the financial problem in two ways; it diverts more of such financing into fixed income marketable forms of borrowing and it reduces the degree to which foreign capital participates in such financing. By impairing investor faith in fixed income forms of investment, inflation shrinks the markets for such securities and exacts a higher cost in interest charges.

Our proximity to the United States has given us problems as well as great advantages. The continuous opportunities for a comparison of living standards make us subject to almost irresistible pressures to up-grade our standards to the United States level. No one can quarrel with the objective but from a timing point of view perhaps we can question whether we are not trying to anticipate the fruits of a highly developed, broadly based, and rich industrial society, which the United States clearly is, but towards which we are still moving. We see this type of pressure in marked form in our trade unions, which show impatience with the thought that there is any justification for wage differentials as between Canada and the United States.

Canadians also seem unwilling to accept the risks that are normally associated with the opportunity to reap the rewards of living and working in a young, rapidly developing country. This is illustrated most clearly, I think, by our tremendous preoccupation with social security, almost regardless of cost.

Here again no one can quarrel with the objective of eliminating suffering and want from our society. However, I think that most of us agree that real security for the Canadian people lies in creating the environment for continuous, vigorous growth. If the prospects for growth are dimmed by a scale of increasing welfare payments that at the present pace of expansion seems clearly inflationary, the security created by such a programme becomes largely illusory. I suggest it is essential that welfare programmes be carefully studied from the standpoint not only of needs but also of future costs and be integrated into the overall picture of government commitments and resources. If this were done there would be less danger of assuming obligations on a scale that develops inflationary pressures in the economy. The anomaly of pressing vigorously the three objectives of satisfactory growth, higher living standards, and a maximum programme of social security is heightened in the case of those who would like to accomplish all this in a narrow framework of Canadian nationalism and high tariffs. Let us continue to aim high in our objectives but let us also put them in proper perspective from a timing point of view.

Canada's vulnerability to inflationary trends and the prospect that inflation seems likely to be a dominant problem in the North American economy in the years ahead really give us no choice but to fight it. The question is primarily whether we do so in a manner that preserves or destroys the principal features of our democratic society. Fortunately, there are some economic forces at work today exerting downward pressure on prices such as increased world competition and technological advances particularly in agriculture. While such forces act chiefly as a brake on stronger underlying inflationary trends they increase our chance of successfully combating inflation without having to resort to extreme measures of control or regimentation.

Government must of necessity play a vital role in counteracting inflationary tendencies. The government's role is primarily one of balancing commitments against resources and setting a good example in sound fiscal housekeeping. In view of current high tax levels, chief emphasis in balancing the budget or running a surplus position should be directed toward holding expenditures in check or preferably reducing them. Of equal importance however is to preserve flexibility in the nature of extra commitments assumed during a period of business decline. In the past there has been too great a tendency to assume commitments of a long-term expanding nature to solve a problem that was essentially short-term in nature.

In the field of monetary management the government should continue to support a policy that leans against inflationary pressures as they develop.

I submit, however, that while government must play a large role in opposing inflationary tendencies, there is danger in asking government to play the only role—danger of failure and danger of inviting restrictions and regimentation. It is naive to believe that in a democracy the government can ever impose for long a solution to a problem that does not have the popular support of the mass of the people. Without this support, government action must take the form of controls and regimentation. Once embarked on this course in a peace-time economy there is no logical limit short of complete regimentation that is likely to prove effective.

The government alone cannot deal effectively with inflation because inflation has its roots in many decisions in the private sector of the economy over which the government has little or no control. It has been argued that government has complete control over inflation because of its control over the money supply. This is probably a theoretically correct position but it is a type of control that for political and economic reasons is rendered impotent. We must be realistic and understand that wage decisions and pricing policies will be

made the greater part of the time in an economy that is not starved in a monetary sense. The manner in which wage and pricing policy is determined is vitally important to any assessment of the strength of future inflationary trends.

We are forced then to move away from the area of government responsibility and explore ways in which individuals either as workers, businessmen, consumers or citizens charged with civic responsibilities can combine to tackle more effectively the problems of inflation. As a general proposition, we must rely less on exhortation and namecalling and create conditions that direct the self-interest of major groups in our society toward actions that promote price stability rather than inflation. A good example of the approach I mean can be found in the area of cost reduction and productivity. It is patently in our best interest to increase the incentive for firms to improve productivity and cut costs, for example by encouraging research or giving greater tax-free allowances for depreciation.

In labour relations there is also greater scope for rewarding workers who come up with cost-saving suggestions. On the whole, labour on this continent has a good record of accepting the introduction of new methods and machines. However, there are some important exceptions, particularly in the field of transportation, which is a particularly heavy cost item in the Canadian economy. In general, it should be made much easier for business to do the things necessary to reduce costs than to conduct a successful appeal in Ottawa for subsidies or more tariff protection.

With Canadian industry currently experiencing a very satisfactory gain in productivity, now is a good time to remind both businessmen and labor leaders of the economic advantages of allocating some part of the productivity gain to the largest but most often overlooked segment of our population—the consumer. Labor has been pressing hard to corral all the gains from productivity, apparently on the theory that there is only one way to increase consumer buying power and that is by increasing labor income. We suggest there is another and better way, and that is by using part of productivity gains to reduce prices and thus increase the purchasing power of the consumer's dollar. This would require a commitment on labor's part to moderate wage demands to provide leaway for some price decrease and a commitment on management's part to carry out the policy of price reduction. This method has particular merit in that it does not encourage inflationary tendencies. Perhaps it is time to have a spokesman for a well organized consumer group sit as a third member at the wage bargaining table with labor and management.

In the second place, we should regard and tackle unemployment less as a national and much more as a regional problem to be dealt with jointly by business, labor, and municipalities at a local level. This is the level at which more effective measures can be taken to expand job opportunities of a permanent nature and this is the level at which pressures to evolve a successful solution are greatest. In this approach also, we weaken the tendency to overstimulate the entire economy in a colossally expensive effort to absorb a margin of unemployment that can be more cheaply and effectively eliminated, even with direct Federal government financial assistance, by an imaginative approach to the problem at a regional level.

Thirdly, we should approach the problem of the inadequacy of savings, not in the spirit of rationing the available supply, but with the object of increasing the incentive to save and broadening the channels through which savings can be accumulated. This is a job mainly for private enterprise, but the Federal government can play a key part by conducting its fiscal and monetary affairs in a manner to give savers confidence in the future value of the medium in which the bulk of saving will continue to be done, that is, fixed

income forms such as savings deposits, insurance, bonds, and mortgages. The savings record of Canadians since the war has been an excellent one in spite of a fairly narrow institutional base for the accumulation of savings. In the past insurance has been one of the major ways in which Canadians have saved and will likely continue to be in the future. Nevertheless, there is room in our economy for additional institutional media for accumulating savings such as specialized savings institutions. In this connection, recent efforts to establish a secondary market for mortgages through the medium of a mortgage bond company is a good example of what I mean.

Fourthly, one of the most potent forces in the fight against inflation is effective competition. Pressure groups in our society are successful chiefly to the degree they can insulate themselves from competitive pressures. Every opportunity should be taken, therefore, to increase the number of price decisions that are arbitrated in the market place. Government, business, and labour are all guilty of short-circuiting the discipline of the market place at times. There are, however, pitfalls to be avoided in pushing competition as an anti-inflationary device. The efficient firm tends to grow large. Therefore bigness should never be the sole determinant of the existence of a monopoly position to be broken. Similarly, growing recognition that certain international labour leaders exert a degree of monopoly power that cannot longer be tolerated should not be the basis for a broad movement to break the trade union movement. Finally, the general desirability of allowing commodity imports to enter the country at tariff rates that allow them to have a strong anti-inflationary effect should not preclude the exception for new and struggling industries that might need effective protection at that partiular stage of their development.

In summary I would like to stress these points.

1. For many reasons, inflationary trends pose a formidable threat to the realization of a satisfactory rate of Canadian growth.

2. While dominant long range economic trends in North America appear to be inflationary, there are currently and in prospect over the intermediate term partially offsetting deflationary pressures. What we have to deal with then is the prospect of moderate and not violent inflation.

3. It is vital nevertheless that we mobilize the major economic and political groups in our society to resist even moderate inflation as history teaches that general belief in the inevitability of inflation eventually quickens its pace.

4. The government has a vital though by no means exclusive role to play in opposing inflationary tendencies.

5. Long range success in resisting inflation depends importantly on directing the self-interest of the major economic and political groups in our society towards actions that promote price stability rather than inflation.

The CHAIRMAN: Thank you very much, Mr. Alexander. That was a well-prepared brief.

The meeting is now open for questions.

Senator REID: Mr. Chairman, I would like to ask a couple of questions arising out of page 8 of the brief.

There you say in the second paragraph: "In the second place, we should regard and tackle unemployment less as a national and much more as a regional problem to be dealt with jointly by business, labour and municipalities at a local level." Why do you rope the municipalities into a matter of this kind? They are beset at the moment by having nothing but land to tax. Taxation of land is their sole means of raising revenue and now to drive them to give services of this nature is putting them in a terrific position. I was wondering why you added them to these two, labour and management?

Mr. ALEXANDER: On the theory, Senator Reid, that unemployment is a local problem usually and can be handled better at that level. As far as the question about taxes is concerned, as to the appropriate division of the taxpayers' dollar between different levels of Government, that is beyond the scope of this presentation. I am assuming that municipalities and local Governments will be or should be put in possession of the funds which will enable them to carry out what I regard as their proper functions.

Senator SMITH (*Queens-Shelburne*): Is it your thought that the national Government would come in to help provide the funds that might be required to alleviate unemployment? You do not mention the national Government in that triumvirate.

Mr. ALEXANDER: I am afraid I must duck questions on the division of the taxpayers' dollar.

Senator SMITH (*Queens-Shelburne*): That was not my point. You seem to have admitted no federal participation in this suggested reigonal approach to unemployment problems. Do you think the federal Government should stay out of it at this local level?

Mr. ALEXANDER: I do not think I went so far as to say the federal Government should not take any responsibility whatever.

Senator REID: The other question is in regard to labour. Most people in Canada are a little alarmed at the continuing rise in wages. Any approach made to labour elicits from labour the suggestion that in many instances prices of articles can be reduced than wages. That would have the effect of keeping down this great rise which is ever increasing. If that could be accomplished —perhaps not in all instances, but in some—it would be of some help?

Mr. ALEXANDER: I think if that approach were accepted by labour it would have that effect, yes.

Senator PEARSON: Mr. Alexander, may I ask this question: Is it not a fact that business will reap the profit and the benefit of having a good labour situation in their area, a situation such as you suggest which would be more regional than national? And, is it not a fact that the business people of the country should take a greater interest in the unemployment situation than the Government itself, because what they are doing, actually, is reaping the benefit of the business and then throwing the labour back on to the taxpayer and asking the taxpayer to look after it until the time changes again and they can use that labour again?

Mr. ALEXANDER: Well, sir, I think enlightened management should—not only should, but does—attempt to take some responsibility for maintaining the type of employment that spreads the need for labour over the year instead of buying it one morning and shucking it off the next when it happens not to need it. I do not know whether that answers your question, but—

Senator PEARSON: It is this accumulation of it all the time. Business gradually drops a little here and a little there until it gets to a position where we have tremendous unemployment on our hands, and everybody says the Government must take hold of this, or the municipalities must take hold of this.

Mr. ALEXANDER: Well, I would include business as one of the agencies that accepts some responsibility for unemployment. It does, of course, accept such responsibility through its contributions to unemployment insurance funds, and devices of that kind.

Senator LEONARD: Mr. Alexander, the instructions to this committee are to study the threat of inflation, and the question immediately arises: Is there a threat of inflation? Now, I rather take it that on page 10 in paragraph 1 of your summary you answer that question, but I would like to ask you if it is

your view that for many reasons, inflationary trends pose a formidable threat to the realization of a satisfactory rate of Canadian growth? Would that be your answer to the question as to whether there is a threat of inflation?

Mr. ALEXANDER: I feel that part of the threat, which I believe exists, of inflation arises from the almost unanimous feeling that there is such a threat. In other words, I think—

Senator ASELTINE: It is psychological?

Mr. ALEXANDER: —that the mechanics of an inflationary development are, to an appreciable extent, psychological. Judging from the number of public utterances and private discussions you hear on this question I do not think there can be any doubt but that most people are worried about it.

Senator HORNER: And the more we talk about it the greater danger there is of its developing?

Mr. ALEXANDER: I think that follows.

Senator BURCHILL: In that connection you mentioned savings as the most desirable thing, and, of course, one of the forms of savings is in the business you are engaged in, the insurance business?

Mr. ALEXANDER: Yes.

Senator BURCHILL: Have you encountered in the last two years, and particularly in the current year, evidence of that psychological fear of the loss of people's savings by inflationary trends?

Mr. ALEXANDER: I think I may say, Senator Burchill, that we have. One such example would be the tendency of persons who normally would buy the type of insurance policy that is based principally on a savings base to prefer instead the so-called term insurance, and to substitute for the savings element in their insurance program the use of mutual funds, or some other form of equity investment. I might say, also, that I am not convinced—and I think this goes for many of my confreres—that that method of trying to protect oneself against inflation is necessarily the best one, or the one which is most likely to be successful.

Senator BURCHILL: Following out my other question, and following Senator Horner's remark, if we want to overcome that psychology one of the things that we ought to do is try to encourage confidence in our ability to maintain a general steadiness in the price level. In that connection I would like you to comment, if you will, on the suggestion that is put forward by such economists as Professor Sumner Slichter that inflation may not be such an undesirable thing.

Mr. ALEXANDER: Would it be agreeable to you if I ask Mr. Popkin to deal with that question. He is much more familiar with Professor Slichter than I am.

Mr. Popkin (Economist, Sun Life Assurance Company of Canada): It seems to me that if you accept the inevitability of inflation you accept the idea that inflation in some way is a stimulus to the economy. In other words, it is a desirable goal. Once having accepted as inevitable a specific rate of inflation—say, a creeping inflation of maybe one or two per cent a year—once that is accepted as being inevitable it seems to me that you have lost most of the stimulus because the stimulus really comes from the expectation of some additional rate of inflation. Therefore, as you accept a higher and higher rate as being inevitable it seems to me that you automatically put in people's minds the idea that it must go on. To get any stimulus out of inflation you have to have a somewhat higher rate than that which is thought to be the generally acceptable rate.

Senator LEONARD: And if you do that you might change the psychology you have been talking about?

Mr. POPKIN: It seems to me that if we are smart enough to keep inflation at a creeping rate then we are smart enough to keep it closer to stability. At least, it seems to me our chances of keeping it stable are as good. To keep up the creeping rate we have to have large sections of the population who are either unaware of what is going on or who have not enough initiative to protect themselves. When this sort of thing is going on people try to hedge themselves, but a hedge is only effective when there is somebody to hedge against. If everybody starts hedging then the hedge disappears. So, you can only be successful at keeping inflation at a particular pace by keeping large sections of your population—and it is usually the sections which are least able to bear it—ignorant of what is going on, and using them as a hedge. So, it does not seem to me to be possible at all to argue for a creeping rate as against a stable rate.

Senator LAMBERT: Is it not true from the point of view of the interest of insurance as a whole—the interest of people who want insurance policies—that there is no consideration given to the thought of inflation, creeping or otherwise? In other words—I think Mr. Alexander will agree with this—the volume of new insurance which has been written by insurance companies in this country in the last five years has been remarkable indeed, and it has reflected a consciousness on the part of the younger generation of the importance of protecting their families and trying to save something for the future. Now then, in the face of that situation as it affects insurance as a whole surely the problem, from the point of view of insurance companies, and the Government, and everyone else, is to regard the 6 million or 7 million policies which are in force in this country as something which should be safeguarded if we are going to have anything approaching a sound economy in this country? That is purely from the point of view of insurance.

Mr. ALEXANDER: I will go along with you wholeheartedly. We take present dollars and have to pay back future dollars. Obviously, that is a deal that can be represented to the public as a good investment only if you can create some assurance in their minds that the dollars they get in return are going to be worth something approaching what they pay in. As to the volume of insurance written in recent years, while it is true it has been very large by any comparison, nevertheless there has been a tendency for the type of insurance to be downgraded, and there has been a great demand for term plans. You put your finger on the essential element, it seems to me, of the insurance contract when you mentioned that it provides protection which cannot be substituted for by any other means, that I am aware of. There are, however, other methods by which a person can save, and it is not in our interest to have a condition exist whereby the public feels that perhaps there are better ways of saving than through insurance.

Senator LAMBERT: I meant to emphasize the point you have just made, that the motive on the part of so many policyholders in this country at the present time is not protection against inflation, but the more basic thing of provision for the future. In other words, the old-fashioned idea of savings has not disappeared from this present generation.

Mr. ALEXANDER: Oh no.

Senator LAMBERT: Very well. But it seems to me that there you have a great potential opportunity for combatting inflation. I am not speaking so much about term insurance, as I am straight life. Those policyholders are facing the prospect that if inflation continues their policies, especially endowment or profit-sharing policies, will be cut in two in a very short time.

That constitutes one of the areas of influence in Canada that could be used to combat inflation. I am not going to say just how it could be used, but it certainly could be organized. During the recent war we had Victory Loan campaigns organized from headquarters here that utilized every channel of publicity and information in order to get support. Why shouldn't the same thing be done in combatting this rising tide of the threat to savings in this country?

Mr. ALEXANDER: There is no doubt that it is our duty and it is in our own interest to mobilize the opinion of the public and of policyholders in favour of the sound dollar, and to warn them of the dangers to come from any other policy, namely, the dangers of inflation. I may say that the life insurance industry, acting together through the Canadian Life Insurance Officers' Association, by a series of advertisements which have been run in newspapers and other periodicals—how effective they have been, we have no means of telling—have attempted to call attention to this danger. We have attempted to supplement those advertisements by public utterances whenever the opportunity presents itself, at such places as annual meetings, where presidents of companies have spoken about the danger of inflation and asked their policyholders to take note of it and support sound fiscal policies and that sort of thing.

Senator MACDONALD: Is not the element of saving only a secondary one in relation to insurance? I mean by that, a person takes an insurance policy primarily to give some security to his loved ones, so that if death should overtake him they will not be left destitute.

Mr. ALEXANDER: I could not possibly attempt to assess the motives so far as buyers of insurance are concerned. There are no doubt many buyers of insurance who are actuated by what you suggest. For instance, a young man, with no accumulation of assets behind him, starts out to raise a family, realizing he has certain responsibilities and discharges it in that way; however, on the other hand, another man may be well-to-do, and he might take out insurance in order to provide ready funds to pay succession duties when he dies. That is pure savings, and not an attempt to provide for his family responsibility.

Senator SAVOIE: Mr. Alexander, you have mentioned on different occasions in the brief the trend at the present time toward the purchase of term insurance instead of straight life insurance. It occurs to me that there is a tendency to buy term insurance because people are investing their money, say, in mutual funds. Does that mean that the yield they would get by investing in mutual funds would be greater than the yield they would get by investing in life insurance?

Mr. ALEXANDER: Only time will tell.

Senator SAVOIE: Time will tell, but what about the present time?

Senator WOODROW: There is the question of protection.

Mr. ALEXANDER: I am not sure what the yield is on mutual funds at the present time, but I suspect life insurance companies are currently earning more on their assets than are the mutual funds now. But please don't take that as a fact.

Senator SAVOIE: What would be the reason for the tendency to buy term insurance instead of ordinary life?

Mr. ALEXANDER: I think the reason the individual is following that course of action is that he is afraid that the dollar he gets back from his insurance policy will have depreciated; inflation will have wiped out part of the value of those dollars. Therefore, he takes term insurance, and if the risk he is insured against does not occur, and he gets nothing back from it, he is hoping that his equity investment will somehow preserve his capital.

Senator SAVOIE: I think that is correct.

Mr. ALEXANDER: That is his motive, as I see it. Whether it will be sucessful is something which, in the insurance field, can only be told after a long period of time.

Senator REID: May I ask a question with respect to a statement at the top of page 3 of your brief? What do you mean by finances for social capital expenditures? In particular, what is meant by social expenditure?

Mr. POPKIN: "Social capital expenditures" means capital for use of municipalities, public schools, hospitals and institutions, as against capital spending by business. Much of the capital for private expansion in the last few years has been supplied by foreign investors, largely because a great many of these projects were initiated in the United States to develop Canadian resources. There has been a shift in the make-up of the capital spending program, from capital spending by business to capital spending by what we call the social-capital sector. This is a type of borrowing that I think falls more on Canadian savings; but that is because the public sector hasn't got as free access to United States capital as business has had in the form of direct investment over the last few years. So, I think that this shift will in the future be a greater burden on Canadian savings.

Senator REID: Have you any information regarding the recent borrowings by municipalities abroad, particularly in New York and elsewhere? Is there an increase to any extent?

Mr. ALEXANDER: I think it has held up.

Senator REID: Have you got any figure showing the recent borrowings abroad by municipalities?

Mr. MCCARTHY: Yes, in 1958 there was a step-up particularly from the provinces and municipalities.

Senator REID: What would it amount to?

Mr. MCCARTHY: I have not got the figures with me.

Senator REID: I was wondering because their borrowings affect inflation to a certain extent.

Senator MOLSON: I would like to ask Mr. Alexander a question about international borrowings. My inquiry really flows from questions asked by Senator Reid. What does Mr. Alexander think the effect has been of our borrowings in the United States, what it may be in the future, and has he any suggestion to make as to how the effect on inflation can be corrected?

Mr. ALEXANDER: Are you asking about the effect of foreign borrowings on the exchange rate?

Senator MOLSON: I am dealing within the context of this problem of inflation, really. It has a bearing, as we know, on the exchange rate but do you think it has had much effect on the problem of inflation here, other than on the exchange rate?

Mr. POPKIN: I would say that one of our greatest assets in fighting inflation is to increase productivity. That is the key we have to keep in mind. I think one of the ways we increase productivity is to make quick use of new technology that comes along. This involves expenditure for machinery and equipment and plant, in some cases. I do not think we would have had the amount of capital spending and the amount of improvement in machinery and equipment had we not borrowed capital. In other words, it has been a very vital part of building up our industrial capacity in modern form in this country, and I think it has been essentialy a good thing. We are going to have to continue to look to foreign capital to keep capital spending as the rate which I think is necessary to keep us competitive in world and

domestic markets, as well as to build up our own industrial capacity. However, we do say that we see this shift from the business sector to the social capital sector where capital will not flow into this country to be invested in municipal or provincial bonds to the extent it will be invested in business capital.

Senator McLEAN: Venture capital.

Mr. POPKIN: Yes.

Senator FERGUSSON: In the middle of page 8 of your brief you say:

"Perhaps it is time to have a spokesman for a well-organized consumed group sit as a third member at the wage bargaining table with labour and management".

I am sure you are aware that in the United States some of the states have appointed counsel to act on behalf of consumer groups. I know that is the case in New York. They have appointed a woman counsel, whose name escapes me for the moment, and she has prepared a number of pamplets and other material to arouse consumers. I believe a federal bill has been prepared this year in the United States but I have not followed it and I do not know how far it has gone. It deals with a federal apointee to represent consumers in that field. I would like to know whether you think that such a spokesman as you have referred to in your brief should be a representative of a voluntary organization such as the Canadian Association of Consumers, which I feel has done a very good job in Canada, or whether we should have a Government appointee representing the consumers?

Mr. ALEXANDER: I think the idea is a good one. How practical it is I do not know. I have not followed what has happened in the United States and I am not aware of what success these public representatives you speak of may have had there. I have not given the matter a great deal of thought but I would suspect the most effective kind of pressure from a source such as this would have to come through some Government official or in the form of a statement of policy on behalf of the Government that would strongly influence the bargaining parties, otherwise they would be inclined to give it scant attention.

Senator FERGUSSON: It would seem you might support the idea that the Government should apoint someone to represent the consumers and be able to present these views.

Mr. ALEXANDER: Either that or speak out without going to the proceedings themselves. I think if Government policy were made plain it would have some effect on negotiations.

Senator CROLL: President Eisenhower has been speaking out very loudly about the steel strike. Has it had any effect?

Mr. ALEXANDER: It is too soon to tell what effect it may have. We will have to wait until at least the end of the month to know. I should think it would have some effect but it would be very difficult to measure it.

Senator HORNER: In connection with your comments about regional financial assistance and the idea of discouraging borrowings abroad, may I say that there was a period in the development of this country when we in the outlying sections were rather bitter towards your own company and many of the banks for investing money in South America, Mexico and places where they did not receive the return they might have received had they invested right here in Canada. I remember particularly around 1913 and 1914 a conference of municipal associations and we were told we were suffering because of lack of capital that was required for municipal development of any kind. We were told your company took $50 million out of Saskatchewan and had not re-invested one solitary dollar in the province. So there was a time when even the banks were

guilty of neglecting the development of Canada to look to what they felt were greener pastures farther away.

Mr. ALEXANDER: I was not in the Sun Life Company at the time of which you speak. As for the $50 million, I very much doubt whether we have at the present time liabilities of as much as $50 million in the province of Saskatchewan.

Senator HORNER: Oh, yes.

Mr. ALEXANDER: Our total assets in Canada at the present time, which are in excess and not less than our total liabilities, are in the order of $800 million. At the time of which you speak it would have been completely impossible for us to have taken $50 million out of the province of Saskatchewan.

Senator HORNER: That was the figure I was given at the time and I never heard it contradicted.

Mr. ALEXANDER: To answer one other suggestion you make, regarding our company's investment abroad we do business abroad and we are required by most foreign countries where we do business to invest our reserves locally, and that affects our investment abroad. To the extent that we are under-invested in any part of the world, it is abroad, and our investments on this continent are much in excess of our liabilities on this continent.

Senator HORNER: But there was a time when that was a bitter complaint, that money was being taken from Canada and invested abroad.

Senator MACDONALD: Well, they are now putting part of it into the South Saskatchewan dam.

Senator MCLEAN: I was on the Unemployment Commission back in the deflationary period of the thirties, the hungry thirties they called it. The late Arthur Purvis was chairman, Tom Moore, of the labour movement, was vice-chairman. We found in our surveys of the country at that time that unemployment was not equally distributed over the country. In some places there was no unemployment. In other places we found the worst conditions of poverty imaginable. I might say it was absolutely impossible for the local municipalities to begin to finance it. They had to come to the federal Government and I think that it is the same today, that unemployment is not equally distributed. You will find places where it is simply beyond their resources to finance anything like unemployment. The federal Government must come in and help those places, and Canada is rich enough to feed and clothe everybody here.

The second point I want to make is, you speak of social benefits and so forth. I agree with you that the welfare state is practically all inflationary. If you take from the stock-pile and do not replace it in the stock-pile, that is inflationary. But when the people vote for anything along that line then the Government has to implement it because, after all, we are living in a democracy. We may not all agree with it but when the electorate has voted for it, then the Government has little chance not to implement it. Of course, in a dictatorship we would do otherwise. I cannot see how you can do very much about that. As far as inflation goes I agree that we have had it since the days of William the Conqueror and to cure it we will have to get someone who has never appeared on the scene. We have had our ups and downs in the price level but to try to clear that I think it is up to somebody who has never appeared on the horizon up to the present.

Mr. MCCARTHY: Mr. Chairman, I would like to make a comment on that. The point raised is that the people will have what they vote for. I would merely suggest that the Government in its wisdom certainly must point out the results of these schemes. The people should make their choice with the fullest possible knowledge.

Senator MCLEAN: That is what they do at election time.

Senator ISNOR: Mr. Chairman, I would like to have Mr. Alexander turn to page 10 of this brief, point 4 in the summary. There he says that "The Government has a vital though by no means exclusive role to play in opposing inflationary tendencies." Would you be a little more definite as to what you mean by that?

Mr. ALEXANDER: I think, Senator Isnor, that was intended to furnish a warning that in our opinion inflation could not be fought by abdicating all our responsibilities and leaving it up to the Government. Specifically, I do not believe that the Government by operation of monetary policy alone, can necessarily contain inflation or at least cannot do it without creating so much havoc of another kind that the cure is perhaps worse than the disease. There are many ways, some of which have been suggested in this brief, that the public, represented by business, represented by labour, and represented by public opinion, could be properly mobilized to contribute to containing inflation. To a considerable extent it is a question of education and dealing with the problem in such a way as to eliminate the effects of a sort of mob psychology, if you want to call it that.

Senator ISNOR: That is a very general statement. Can you be more specific.

Mr. POPKIN: I think we pointed out the Government's responsibility very clearly—to set a good example in fiscal housekeeping.

Senator ISNOR: Now you are coming to something.

Mr. POPKIN: I think that is all in the brief. The Government's role is to set a good example and not to take on commitments during recession periods that are of a long-term expanding nature to deal with what is essentially a short-run problem.

Senator CROLL: Mr. Alexander, I assume that you will agree with me that we have had a moderate amount of inflation in this country for many years.

Mr. ALEXANDER: I think you would have to call it moderate as compared to what we have seen in many other parts of the world.

Senator CROLL: And I assume in the normal sense we will continue to have a moderate amount of inflation, whatever that term may mean.

Mr. ALEXANDER: I hope we won't but I am not 100 per cent sure we won't.

Senator CROLL: It follows that insurance companies, and I am not singling out your company, that clients of insurance companies, people like myself, are constantly complaining about the value of their policy when they have to cash it in as compared to what they thought it would be when they bought it.

Mr. ALEXANDER: There are some.

Senator CROLL: It is not the fault of the insurance companies, of course, but there is a complaint or feeling abroad that insurance policies are not bringing what the holders thought they might bring in when they made the investment, in relation to the dollar today.

Mr. ALEXANDER: That is right.

Senator CROLL: We have got this premise, and there has been a moderate amount of inflation and there will likely be some in the future although we hope not. Have you given consideration, in the interests of your clients, to selling them variable policies, relating it to the dollar?

Mr. ALEXANDER: That, of course, is something that has been very actively agitated in the United States, and there are clearly-drawn lines between certain insurance companies on the one hand that perhaps that type of policy is a sound one and certain other insurance companies that believe it is not a sound development from the long-term point of view of the industry. In Canada the question has not been so actively discussed partly, I suspect, because the possibility of offering such policies scarcely exists unless either the Insurance

Act is amended or certainly unless the Superintendent of Insurance permits certain division of accounts in the future that has not been permitted in the past.

I am sure that our actuaries have given consideration to the issuance of such policies. It would be impossible to be wide awake in the business without having given consideration to the issuance of such policies. As far as we are concerned it is a trend or it is a development that we deprecate, and we hope we will not be forced into that type of business because we think it will be detrimental to our long-term interests.

Senator BOUFFARD: Mr. Alexander, I come back to the question which I put to someone else who came before this committee the other day. What, in your opinion, is the effect of high taxation? I see it in two ways. The first is that if a manufacturer wants to make an additional profit then he has to make it twice because of the tax he has to pay, He has to pay half of what he makes in taxes. If public utilities such as railways, telephone companies or electric companies feel they need to have additional income then they have got to ask double on account of taxation. The second is that it has an effect, I think, of discouraging a lot of people to make additional income on account of the fact that they feel they are going to pay the whole thing in income tax or estate duties. Does high taxation on income and estates have an effect on inflation, in your opinion?

Mr. ALEXANDER: I would just like to say a brief word on that, and then perhaps one of my associates might add to it. I do not think there is any doubt that taxes are regarded by manufacturers as part of their costs. They have to be so regarded if they are to stay in business. From that point of view prices are higher with taxes than they would be if we did not have taxes. On the other hand, I think it is difficult to argue that taxes are inflationary overall. I mean, taxes also have the effect of discouraging purchases. They make people less able to buy the things which they could buy if they did not have taxes to pay. I would think that an increase in tax rates would have enough deflationary effect in slowing dow business to perhaps counteract the inflationary effects of increasing costs.

I am getting a little out of my depth here on a technical question, and perhaps one of my associates would take it up.

Mr. POPKIN: I would say if you take a simple definition of inflation as a rise in prices then obviously taxes would come under that head, because they are reflected in prices. If you take the definition that inflation is an increase in money supply then taxes are not inflationary because they are only a transfer of money that is already in the economy. In other words, under this definition there is no inflationary effect in taxation because the money supply has not been increased. I think most of us are willing to take the simple definition of inflation as being a rise in prices, so that taxes in this sense are inflationary.

Mr. ALEXANDER: I think it will also depend to some extent on how the taxes are spent. If the taxes are spent for the public good in a way that the productivity of the economy is improved, and if you get your money's worth for your tax dollar, I do not think taxation should be regarded as inflationary.

Senator BOUFFARD: I do not think we have to discuss that because it would take us too far away.

Mr. ALEXANDER: I am afraid so.

Senator PRATT: Following up the point Senator Molson raised about foreign capital coming in, you mention on page 3 of your brief the lack of evidence in effect in fiscal policy and in Government policy in Canada of opportunities to foreign investors, and the slowing-up of capital coming in. Have you any

reason, or, at least, have you been able to observe to what extent that lack of confidence is getting abroad with regard to investment in Canada, and the lessening of capital coming in?

Mr. McCarthy: On balance I think in the last year and a half, or so, we have seen evidence of this in the form of more discussion of the subject by our friends abroad, particularly in the United States, than we had encountered in previous years, but how you can estimate the degree of change I do not know. I think it would be rather difficult.

Senator Pratt: But you feel there is a general trend away from the inflow of capital by reason of lack of evidence?

Mr. McCarthy: It is an aspect of the question that has arisen more lately than it has for sometime, but it would be a marginal factor.

Senator Horner: Yes, I think it is very slight. I think it would be dangerous for it to go about that there was any lack of evidence of investing in Canada.

Senator Pratt: It would be a very serious thing if that is the trend that is setting in.

Senator Horner: I do not think it is.

Senator Croll: Can you point at something which is concrete and say: This is the thing that is bothering foreign investors with respect to Canada?

Mr. McCarthy: Perhaps some of the interest rates that some of our public borrowers have had to pay in the United States market in the last month or two—

Senator Croll: The people in the States are having to pay the same rate. Their junior financing is being done at the same rate as ours.

Mr. McCarthy: I suggest, senator, it has been a marginal change, and it would be one that would be difficult to measure. It is merely our opinion that there has been some slight change.

Senator Horner: But you cannot point to anything specific.

Mr. McCarthy: I do not think I could.

Senator Pratt: Are you referring to investment capital or industrial capital?

Mr. McCarthy: No, I am referring to social capital.

Senator Pratt: Capital that is coming in from abroad

Mr. McCarthy: The process has been slow because of the nature of the problem. When social capital is required from outside this country those who require it must go out and fetch it. They must borrow it. But, on the business side the capital itself tends to come into the country voluntarily.

Senator Pratt: That is due to industrial expansion in Canada. I thought it had a relation to a lack of evidence that was showing up in the amount of capital coming in here for industrial purposes.

Mr. Alexander: We have many visitors in our office from outside the country, sir, and time was—let us say, a couple of years ago—when Canada was regarded as a country that stood out amongst all the major industrial and financial countries of the world because of the soundness of its policies. That was a relative judgment. They were comparing other countries with what they saw, or thought they saw, up here. Recently, one detected the disappearance of that feeling, and there is now a feeling that, perhaps, they are all now pretty much of a muchness so far as financial policies are concerned.

Senator Pratt: That is the very point I was wondering about, because I had opportunities in years past to see that there was a wealth of evidence that anything that was invested in Canada was a good investment, and there was no unfair treatment, and so forth.

Mr. **ALEXANDER**: I think that feeling still exists in large part.

Senator **MACDONALD**: May I ask a question regarding the documents in the form of advertisements that have been distributed?

The **CHAIRMAN**: I do not know if Mr. Alexander knows about that, or not.

Senator **MACDONALD**: This refers to the American dollar.

Mr. **DIMOCK**: Mr. Chairman, my name is Dimock, and I am with the Canadian Life Insurance Officers Association. Last week when three life insurance presidents appeared here, copies of reprints of the Canadian series of institutional advertisements on inflation were distributed to the honourable senators. At that time reference was made to the American service, and we undertook to provide that information today.

This is the American counterpart of the series of institutional advertisements by the life insurance companies there on inflation. Incidentally, you will notice that their approach is slightly different than is the approach in the Canadian advertisements. Theirs is perhaps based more on the "fear" approach. Ours, we felt, was a little more constructive and subtle.

The **CHAIRMAN**: Thank you very much.

Senator **CROLL**: Mr. Chairman, may I take advantage of Mr. Alexander's presence and ask one more question with respect to competition. My recollection of it is that in so far as rates between your company and other companies are concerned, they are about the same. Indeed, I should say they are identical.

Mr. **ALEXANDER**: There are a great variety in rates.

Senator **MACDONALD**: You would expect that answer?

Senator **CROLL**: Leading from that answer, may I say that if I go out to buy a 20-year endowment or a 20-year life, the rate will be the same no matter where I go?

Mr. **ALEXANDER**: I think there are differences, but I am not a salesman and do not have a rate book.

The **CHAIRMAN**: Probably some of the benefits are different.

Senator **CROLL**: I am talking about a 20-year pay life and a 20-year term policy—it is just as simple as that.

The **CHAIRMAN**: Do you propose to take out a policy?

Senator **CROLL**: It is my own view that I can go to any company and buy such a policy at the same rate.

Senator **SAVOIE**: The net premium for protection on life insurance is the hame everywhere if you have the same mortality table.

Senator **CROLL**: Am I wrong in that view? Correct me if I am wrong.

Senator **SAVOIE**: I think you are right.

Senator **CROLL**: Yes, but I want the witness to say it.

Mr. **ALEXANDER**: I am not going to say it, because I am not sure of it. My impression is there are differences between companies. I see tables circulated around our office comparing costs and net costs of the Sun Life with other companies. While the rates may be very close from one company to another, they never correspond exactly, and the discrepancy varies depending on the type of policy, the company, and that sort of thing.

Senator **CROLL**: Wherein lies the competition in the life insurance business?

Mr. **ALEXANDER**: Largely in the service the company gives to its policy holders.

Senator **CROLL**: Service consisting of what, Mr. Alexander?

Mr. Alexander: Catering to his needs, discharging liabilities promptly, co-operating in the settlement of estates, and that sort of thing.

Mr. Popkin: I think most of the insurance we sell is on a participating basis, and the cost of the insurance is not known until the policy matures. Our dividends are adjusted year by year, depending on our earnings from investment and our mortality experience. It seems to me that the cost of a policy is not determined on the day you pay your first premium, but at the expiry of the policy.

The competition comes in the sense that the dividend scale varies, and net cost also varies. These are things the public is interested in, and there is very strong competition on that basis.

Senator Croll: You are talking about participating policies, but that is not the major portion of your business?

Mr. Alexander: It is 90 per cent of it.

Senator Croll: Participating in every respect?

Mr. Alexander: Yes.

Senator Macdonald: May I ask what relation this question has to the subject of inflation?

Senator Croll: I am referring to the top of page 9 of the brief, where it says that one of the great potential forces against inflation is effective competition. I am trying to find out where is the competition in the life insurance industry.

Mr. Alexander: There is plenty of it.

Senator Smith (*Queens-Shelburne*): Mr. Chairman, I see our time is about up, but I would like to ask one short question.

I come back to the second paragraph on page 8 of the brief, to the question which Senator Reid introduced a short while ago. It refers to the regional approach to the unemployment problem. The brief uses these words, "In this approach also, we weaken the tendency to over-stimulate the entire economy . . ."

My question is this: in a period of expansion, what effect, if any, on inflation would result if the Government decided to stimulate the regional unemployment situation by giving special tax and transport relief where there is industrial expansion in the low employment areas, and is such a scheme in your opinion practical at all?

Mr. Popkin: May I say one thing on this regional unemployment idea—we were not trying to get the federal Government out of the financial aspect of the unemployment problem. We recognize that the financial problem is much beyond the capacity of the municipality to handle. What we are trying to do is direct more constructive thinking as to how to deal with regional pockets of unemployment. If you look at the unemployment situation you will find that it has not been a general unemployment picture; it has been regional and spotty.

Senator Smith (*Queens-Shelburne*): Particularly in the east.

Mr. Popkin: I am thinking of the work being done in the Maritime provinces through APEC, as an example of a regional approach to a specific problem, which I think could bear fruit if applied across the country. It seems to me that if we get the businessmen of an area working together, trying to attract business to the communities in that area, this could be most useful. It is an attempt at the local level to thresh out the unemployment problems.

Senator Smith (*Queens-Shelburne*): Let us assume that APEC came up to Ottawa. One of its main approaches to the federal authorities would be

to reduce corporation taxes and transportation costs for new industries in a period when there is general Canadian expansion, but in a particular area that expansion is lacking.

My point is, if that approach was taken and if the federal Government accepted the suggestion, would it have any effect on inflation in the country?

Mr. Popkin: Well, if it was applied on a regional level, I don't see how it could.

Senator Smith (*Queens-Shelburne*): There may be more than one region involved at one time. My point is that Newfoundland, for instance, at the present time has 20 per cent of its labour force unemployed, and in the Maritime provinces it must be 9 per cent—far ahead of the national level. We may be in the early days of a boom; the tendency of the Government might be to keep the tax level high to cover the fiscal approach to such a situation. If they departed from that policy on regional basis, do you think it would have any overall effect on the national economy?

Mr. Popkin: Any instance where they get people employed turning out goods must have a beneficial effect.

The Chairman: Gentlemen, that concludes our sitting this morning. May I, on behalf of the Finance Committee and honourable senators present, thank you gentlemen most heartily for your assistance and information in our study of the threat of inflation.

—Whereupon the committee adjourned.

Second Session—Twenty-fourth Parliament

1959

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE
on the Threat of Inflation in Canada

No. 6

TUESDAY, JUNE 23, 1959

THE HONOURABLE CLARENCE V. EMERSON,
Chairman

WITNESSES

The Canadian Metal Mining Association:

Mr. V. C. Wansbrough, Vice President & Managing Director; Mr. H. J. Fraser, Past-President and Director. (President, Falconbridge Nickel Mines Ltd., President, Ventures Ltd.); Mr. J. R. Bradfield, President. (President, Noranda Mines Ltd.); Mr. W. S. Row, Vice President. (President, Kerr-Addison Gold Mines Ltd.); Mr. A. J. Anderson, Director. (President and Managing Director, Giant Yellowknife Gold Mines Ltd.)

The Investment Dealers' Association of Canada:

Mr. N. J. Alexander, Deputy General Manager, James Richardson & Sons, Winnipeg; Mr. M. D. Cox, Director, Anderson & Co. Ltd., Toronto; Mr. G. Cretzianu, a Vice President, Greenshields & Co., Montreal; Mr. H. L. Grassard, Managing Director, Investment Dealers' Association.

The Railway Brotherhoods:

Mr. H. E. Campbell, Secretary; Mr. John Weldon, Economic Adviser.

Canadian Labour Congress:

Mr. Claude Jodoin, President; Mr. R. Bell, Assistant Research Director; Mr. Eugene Forsey, Director of Research.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

THE STANDING COMMITTEE ON FINANCE

Chairman: The Honourable Clarence V. Emerson.

The Honourable Senators:

*Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Buchanan
Burchill
Campbell
Choquette
Connolly
  (*Halifax North*)
Connolly
  (*Ottawa West*)
Crerar
Croll
Dupuis
Emerson
Euler
Farris
Gershaw
Golding
Haig
Hayden
Higgins
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Power
Pratt
Quinn
Reid
Robertson
Roebuck
Savoie
Smith
  (*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
Wall
White
Woodrow—50.

**Ex officio* member.

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, TUESDAY, April 28, 1959.

"Pursuant to the Order of the Day, the Senate resumed the postponed debate on the motion of the Honourable Senator Wall, seconded by the Honourable Senator Leonard:

That the Standing Committee on Finance be instructed to study the threat of inflation in Canada;

That the Committee have the authority to send for persons, papers and records, and to report from time to time.

After debate, and—

The question being put on the motion—

The Senate divided and the names being called they were taken down as follows:—

CONTENTS

The Honourable Senators

Baird
Basha
Beaubien
Bois
Boucher
Bradette
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Croll
Dupuis
Euler
Farquhar
Gershaw
Golding
Grant
Hodges
Hugessen
Isnor
Jodoin
Lambert
Lefrançois
Leonard
Macdonald
McGrand
Petten
Pouliot
Pratt
Reid
Robertson
Roebuck
Savoie
Smith (*Kamloops*)
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Westmorland*)
Vaillancourt
Veniot
Wall
Woodrow—40.

NON-CONTENTS

The Honourable Senators

Aseltine
Brunt
Buchanan
Emerson
Gladstone
Haig
Higgins
Horner
MacDonald
Methot
Pearson
Quinn
Sullivan
White—14.

So it was resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, June 23, 1959.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.15 a.m.

Present: The Honourable Senators Emerson (*Chairman*), Aseltine, Beaubien, Brunt, Burchill, Connolly (*Ottawa West*), Crerar, Croll, Euler, Gershaw, Golding, Haig, Higgins, Isnor, Lambert, Leonard, Macdonald, Pearson, Pratt, Reid, Smith (*Queens-Shelburne*), Thorvaldson, Turgeon, Vaillancourt and Woodrow—25.

In attendance: Dr. John J. Deutsch, Economic Consultant.
The official reporters of the Senate.

Consideration of the order of reference of April 28, 1959, was resumed.

The following were heard:

For Canadian Metal Mining Association: Mr. V. C. Wansbrough, Vice President and Managing Director.

Mr. H. J. Fraser, Past-President and Director. (President, Falconbridge Nickel Mines Ltd., President, Ventures Ltd.).

Mr. J. R. Bradfield, President. (President, Noranda Mines Ltd.).

Mr. W. S. Row, Vice President. (President, Kerr-Addison Gold Mines Ltd.).

Mr. A. J. Anderson, Director. (President and Managing Director, Giant Yellowknife Gold Mines Ltd.).

For The Investment Dealers' Association of Canada: Mr. N. J. Alexander, Deputy General Manager, James Richardson & Sons, Winnipeg.

Mr. M. D. Cox, Director, Anderson & Co. Ltd., Toronto.

Mr. G. Cretzianu, a Vice President, Greenshields & Co., Montreal.

At 12.30 p.m. the Committee adjourned.

At 2.30 p.m. the Committee resumed.

Present: The Honourable Senators Emerson (*Chairman*), Connolly (*Ottawa West*), Crerar, Croll, Euler, Gershaw, Golding, Haig, Horner, Isnor, Leonard, Macdonald, Reid, Smith (*Queens-Shelburne*), and Woodrow—15.

The following were heard:

For The Railway Brotherhoods:
Mr. H. E. Campbell, Secretary.
Mr. John Weldon, Economic Adviser.

For Canadian Labour Congress:
Mr. Claude Jodoin, President.
Mr. R. Bell, Assistant Research Director.
Mr. Eugene Forsey, Director of Research.

Further consideration of the order of reference was postponed.

At 5.30 p.m. the Committee adjourned until Wednesday, June 24th instant, at 9.30 a.m.

ATTEST.

John A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, Tuesday, June 23, 1959.

EVIDENCE

The Standing Committee on Finance, which was instructed to study the threat of inflation in Canada, met this day at 10.15.

Senator EMERSON in the Chair.

The CHAIRMAN: Honourable senators, we have a quorum. I am going to call on Mr. V. C. Wansbrough, Vice-President and Managing Director of Canadian Metal Mining Association, to introduce his associates. Mr. Wansbrough will also present the brief on behalf of his Association.

Mr. V. C. WANSBROUGH, *Vice-President and Managing Director, Canadian Metal Mining Association*: Honourable Chairman and honourable senators, may I introduce my colleagues, who are here representing the Canadian Metal Mining Association, as follows:

Mr. J. R. Bradfield, President,
  (President, Noranda Mines, Limited.)
Mr. A. J. Anderson, Director,
  (President and Managing Director,
  (Giant Yellowknife Gold Mines Limited.)
Mr. W. S. Row, Vice-President,
  (President, Kerr-Addison Gold Mines Limited.)
Mr. H. J. Fraser, Past-President and Director,
  (President, Falconbridge Nickel Mines Limited,
  (President, Ventures Limited.)
Mr. W. M. Gilchrist, Director,
  (President, Eldorado Mining and Refining Limited.)

Mr. Chairman, our brief is as follows:

THE THREAT OF INFLATION IN CANADA

May we first express our appreciation of the opportunity afforded us of appearing before you and presenting some facts and considerations relative to your enquiry, insofar as the mining industry in Canada is concerned.

This presentation is made by the Canadian Metal Mining Association on behalf of its member companies, which number one hundred and constitute the great majority of the operating mining companies in Canada, producing base metals, gold, silver, iron ore, uranium and some industrial minerals of which the chief is asbestos.

The companies represented employ some one hundred thousand Canadians and conduct their mining and metallurgical operations in nine of the ten provinces—that is, in every province except Prince Edward Island as well as in the Yukon and the Northwest Territories. The annual value of the products of these mines is approximately 1.3 billion dollars, and the great bulk of these metals and minerals finds markets in the U.S.A. and, to a lesser extent, in other countries.

The mining industry is therefore a very important factor in the economy of this country and one of the most substantial contributors to its export trade.

Inflation, by which we understand the steady upward climb of costs and prices and the corresponding decline in the real purchasing power of the dollar, has been described, and in our view correctly described, as probably our major and most serious economic problem.

It may be of interest to your Committee to hear how this problem has actually affected a major Canadian industry and how we assess the seriousness of its impact.

We propose, therefore, to take the last ten years, 1948 to 1958, and to say something of the inflationary trends to which the mining industry, together with every other industry in this country, has been exposed during that period and to appraise the results.

The mining industry affords an interesting example of how inflationary trends operate, because within the industry we have two types of operation, one type of operation where the price of the product is fixed, and has been fixed, not only for the ten-year period under review but for the past twenty-five years, viz., gold mining, and a type of operation where, as is most general in industry, the price of the product fluctuates with market conditions of supply and demand.

Mining differs from the ordinary processes of secondary manufacturing in several important respects. First, the industry has to go in search of its raw material, maintaining at some considerable cost a continuing programme of exploration. If, as and when a company succeeds in finding an ore body, that ore body, again at very considerable cost, has to be prepared for mining, and as a general rule a townsite has to be laid out and a community built, complete with private homes, public buildings, services, recreational and educational facilities. Such expenditures may run from a few tens of millions of dollars to several hundred million, as in the cases of the iron-ore deposits of New Quebec and Labrador, the uranium deposits of the Algoma Basin or the nickel deposits of northern Manitoba. Accordingly, vast sums of risk and development capital are constantly required and constantly at work.

In the next place, the ore in the ground is not only a wasting asset in the sense that it is used up as it is mined, but it is also a variable asset in the sense that, as the costs of operations increase, the extent and value of the ore body shrink; what at a lower level of operating costs is profitably minable ore has, under the impact of inflationary cost trends, to be written off as waste rock, and usually written off for good.

Both these factors render the mining industry highly susceptible to inflationary pressures. A mining enterprise is a long-term proposition, calling for years of careful planning, both in the preparatory stages and during the actual extraction process. If it is to be confidently undertaken and large sums of money raised, there must be reasonable assurance of stable economic conditions. Further, any marked increase of operating costs is at once reflected in the shrinkage of the asset, the ore body itself.

Also, as the great bulk of the products of Canadian mines has to be marketed abroad, Canadian producers are at a competitive disadvantage compared with producers from other countries, where labour costs and operating costs generally are considerably lower. A further result of increased costs is to maximize the technical effort which has to be expended on more economical methods of production, by increased mechanization and by improved mining and metallurgical techniques. This in turn involves considerable additional outlays, and insofar as such improvements cannot be carried on indefinitely, the operator has the experience of fighting a losing battle. Like the character in Alice in Wonderland, he has always to be running faster to remain where he is.

So much by way of introduction. Let us now look at some of the economic facts of the last ten years.

We have noted that in some of the presentations made before you emphasis has been laid on the fact that the current danger is not so much the existence of strong inflationary pressures now but rather the prevalence of what is called "inflationary psychology". From the point of view of the mining industry, the important factor is rather the steady trend of cost increases over the last ten years.

The figures which we are about to quote have been supplied by some of our member companies from their own records; they are taken from typical mining operations.

The principal items of operating costs are taxes, wages, and the purchases of equipment, operating supplies and services.

Taxes

During the ten-year period under review, the overall tax bill of a representative mining company has increased 37.81 per cent—11.16 per cent on account of federal income tax and 93.9 per cent on account of provincial taxes. As regards provincial taxes, it should be pointed out that of course these vary province by province, and, further, that in certain provinces there is a corporation tax as well as a mines profit tax. In the instance given above, there has been a sharp increase both in the provincial corporation tax and the provincial mines profit tax, especially for mines in the higher profits bracket.

Wages

Wage rates in a typical gold mine have increased 50 per cent in relation to daily earnings, with increases of 51 to 66 per cent in hourly rates for various classes of worker. In base metal mines the increases have been of a greater magnitude.

I am able now, from one of our companies, to insert a figure which is rather a striking one, of an increase of 104 per cent.

The inflationary effects of such increases have been intensified by the negotiation of labour contracts of more than one year's duration, involving increased wage rates for a second and sometimes a third year.

Services

Electric power has increased 23 per cent; freight rates on the average, 76.25 per cent.

Supplies and Equipment

Increases in costs of supplies range from less than 20 per cent in the case of a few items to 50 to 54 per cent in others. Similarly with items of equipment. Increases range from a modest 15 per cent for certain types of batteries, for example, to 65 per cent for locomotives and 79 per cent for rock drills.

These figures will serve to give a factual picture of the experience of mining operations during the past ten years.

In retrospect it is clear that one strong inflationary factor has been stockpiling programmes on the part of governments. The build-up of United States Government stockpiles, for example, of which they have three, during the earlier years of the last decade, had the effect of creating artificial shortages and therefore stimulated prices of an unnaturally high level. Now the circumstances are reversed and the stockpiles overhang the market. Previously we have experienced the unfortunate effect on prices which can be induced by releases of even small quantities of metals and other products from some stockpiles. Recently we have been faced with the danger of releases of considerable magnitude which, if carried into effect, could and would create havoc. Large swings in the prices of products are a very great danger to the economy. Indeed

it is fair to say that, as far as the base metal mines are concerned, their interest is not in high prices, which merely render their products more susceptible to competitive substitutes, but in stability of prices over reasonably long periods of time.

It is our belief that inflationary pressures from these various sources have handicapped the mining industry and, if continued, constitute a real danger to the stability and health of the economy of Canada as a whole.

As regards taxes, everybody realizes that in times of national emergency the money has to be found for legitimate and essential national purposes. On the other hand, it affords justifiable cause for alarm if, in the absence of a national emergency and at a time when recessionary influences have obviously been at work as they have for the past two years, government expenditures at all levels tend to increase rather than to decrease and the federal government budget continues to show a substantial deficit. In such circumstances it would seem to us imperative that resistance should be offered by government authorities to demands for increased government services, especially of a welfare nature; otherwise, the inducement to private industry, from which the bulk of the taxes are drawn, to expand their operations is undermined and the health of the goose that lays the golden eggs impaired. This is certainly a field in which governments could well set an example to industry.

Our first recommendation, therefore, is that the greatest caution and restraint be exercised at all levels of government in their purchasing and welfare programmes and that no extension of government services be considered at this time unless they are clearly imperative in the interests of public and national welfare.

As for wage rates, no legitimate objection can be made to steady increases, without which improved standards of living cannot be equitably distributed, provided that such increases are matched by increased productivity. If this condition is not realized, the apparent advantages gained by one segment of the community are offset by losses to another segment, and the advantages themselves may prove illusory because of the shrinking purchasing power of the dollar.

One evident trend as regards wage rates in this country causes us considerable concern. We refer to the attempt, indeed the announced policy of certain labour organizations, to impose on industry in Canada wage rates comparable to those of the United States.

Such an objective seems to us to be quite unrealistic and totally to ignore the fact that Canada is at an entirely different stage of her national and economic evolution from that of her neighbour to the south. Wage rates in Canada should be adjusted to the conditions prevalent in this country and not to those of our neighbour, which is far more advanced industrially and, with a population of 170 million people, has one of the largest internal free trade areas in the world.

It is also our belief that one of the principal factors leading to inflationary pressures on our economy is the monopolistic position which some large, established labour unions occupy, not only in the mining industry, but in many of the key industries of this country, including transportation services. Such monopolistic pressure has already proved very difficult to combat, whether by the government itself or by private industry, and the additional costs which flow from increased wages germinate and spread through the whole economic life of the community.

It should also be noted that each increase in wage rates becomes a built-in and permanent factor of operating costs. Taxes can, may be and should be reduced in appropriate circumstances. We have yet to experience wage decreases, even in times when prices of the products sold and the profits of producing companies have substantially declined.

As regards increases in the costs of supplies and services, there is ground for hoping that in the current circumstances of keener competition a halt may be called to the steady upward curve of the past ten years, though, as far as the mining industry is concerned, any levelling out in the price of equipment and supplies always comes considerably later than a decrease in the prices of the metal products which the mines themselves produce and sell.

Now let us turn to the gold mining industry, which has been operating for the last twenty-five years under a gold price fixed by intergovernmental agreement at $35.00 (U.S.) an ounce.

The honourable members of this Committee will be well aware of the measures taken by the Government of Canada over the past ten years to keep the solid core of this important industry in being, as it has continued to suffer severely from the cost-price squeeze.

We doubt if you would welcome at this time a full-dress review of the experience of the gold mining industry in Canada. We shall, however, be very pleased to answer any questions and supply any data that may be of interest to any member of the Committee. We must, however, emphasize our belief that the wisdom of the Canadian Government in continuing to assist forty-one of our fifty operating gold mines through the Emergency Gold Mining Assistance Act will be justified by events. Nine of our gold producers are not in receipt of any assistance from the federal government. Such producers are free to sell gold as they see fit. Gold is now quoted as a commodity on the Toronto Stock Exchange. Since these free sales have been permitted, there has been substantial interest in the purchase of gold and sizable transactions have taken place. Many people believe that an increase in the gold price is inevitable and that gold is a valuable hedge against the decline of the purchasing power of the dollar.

Further, there are many who agree with Sir Roy Harrod of Oxford University, Dr. W. J. Busschau of South Africa and other economists that gold is not in sufficient supply to perform its necessary functions in maintaining and expanding the increased post-war volume of world trade, and that in departing too far from the gold standard we have thrown away a valuable brake and check on inflationary tendencies.

As regards other segments of the mining industry, such as the base metal producers, the iron ore and asbestos producers, their experience has run more closely parallel with that of industry in general, namely, strong demand for their products during the early years of the last decade and then a change into a position of over-supply and increased competition from other countries, including some from behind the Iron Curtain. The lead and zinc industry was the first to illustrate this swing into a surplus position, with the result that we have been faced with restrictions in the form of quotas on imports into our most important market, namely, the United States. The strong protectionist sentiment, induced by the advent of recession in that country, has caused some painful readjustments in the industry in this country. This is most obvious now in lead and zinc, and the fact that a 1.7 cents per pound duty on copper came into effect in the United States in June 1958 has been as disruptive as in our view it is unnecessary. Moreover, there are a number of bills before Congress now which would impose further restrictions on imports of Canadian metals.

The effect of such legislation is to divert metals from their natural markets and aggravate the surpluses elsewhere. This, coupled with the increased competition of other countries, poses difficult problems for the mining industry in Canada, especially when it is recalled that the prices of base metals are highly volatile and, as has been previously mentioned, respond to market weaknesses long before price declines are evident in secondary manufacturing industries.

The dilemma, therefore, in which the mining industry finds itself is to bridge the gap between reduced prices for its own products and built-in factors of cost, whether these are taxes, wage rates or costs of supplies and machinery, which do not immediately respond to deflationary factors.

In the overall picture and in the long run this could be very serious. Mining is one of the key primary industries on which the economic prosperity of Canada depends. An unreasonably high level of operating costs constitutes an indefensible wastage of our mineral resources. It also imposes an unnecessary handicap on a major exporting industry in the face of keen competition on world markets. It should be added that the continuing premium of the Canadian dollar imposes an additional burden on our exporting primary industries, including, of course, the gold mining industry.

In summary, we would submit that whatever may be the current strength of inflationary pressures on the Canadian economy, the significant fact is the strong inflationary trends which have been so evident over the past ten years.

In the earlier part of this period, when Canada was enjoying a degree and speed of economic expansion which was almost unprecedented, inflationary pressures could almost be taken in their stride. Of recent years, however, circumstances have drastically changed. Important metals and minerals, of which Canada is a major producer and exporter, have moved into a surplus position. World competition has sharply increased and restrictionist policies have been put into effect in Canada's principal market.

In these circumstances, the full and heavy impact of built-in costs such as taxes, high wage rates and costs of materials, machinery and supplies becomes painfully apparent. It is clear that adjustments must be made as promptly as possible to a new set of circumstances and that a halt must be called by every possible means to the continuance of inflationary trends and the force of inflationary pressures.

How this is to be done is rather a matter to be determined by the professionally competent in economics and monetary policy. To the layman, one or two clear lines of advance would seem obvious. The first is to contain government spending, to balance government budgets, to exercise the most prudent control over any proposals for the expansion of government services, with the ultimate aim of the earliest possible reduction in tax rates. The second step is to hold the line against further pressures for increased wage rates, especially when such pressures are inspired from sources not taking into account Canadian requirements and Canadian conditions, and to curtail the monopolistic power now exercised by national and international unions. And, finally, it is most desirable to support all measures taken, whether by government bodies or by groups of private industrialists, to spread public information as to the need of such measures and of the serious threat, not only to private organizations and persons, but to the economic prosperity of the country as a whole, which always lies closely beneath the surface at a time when the purchasing power of the national currency is being steadily depreciated and eroded.

The CHAIRMAN: Thank you very much, Mr. Wansbrough. Honourable senators, I would now like to throw the meeting open, and Mr. Wansbrough and his associates here will be very pleased to have questions asked of them.

Senator CROLL: Would you like a toughie to start with? My source of information is the Department of Labour wages, rates and hours of labour; Gordon Commission study of output of labour and capital in the Canadian economy, and DBS prices and price indexes.

Senator BRUNT: What is the year?

Senator CROLL: These figures are for the years from 1946 to 1955; those are all the years I have. The chart indicates that whereas wages rose to 122

points on the chart productivity per man hour rose to 182. The statement on which I would like you to make some comment is this: The widening gap between the trend of productivity and the trend of real wages simply flies up and hits you in the face; what is not so obvious but which is equally striking is that every year when both productivity and real wages rose, real wages lagged behind in that period of time.

Mr. WANSBROUGH: May I ask whose comment that is? Is that a comment from—

Senator CROLL: No, the source of the chart I gave you. The comment is not from the chart. The comment is somebody else's comment.

Senator LEONARD: May I ask Senator Croll, for my own information, if that is related to the mining industry?

Senator CROLL: Yes, only to the mining industry.

Senator CROLL: The comment is not from the chart. The comment is by somebody else.

Senator LEONARD: May I ask Senator Croll, for my own information, whether that is related to the mining industry?

Senator CROLL: Yes, only to the mining industry. I am sorry if I did not make that clear.

Senator BRUNT: Would you define "real wages"?

Senator CROLL: Oh, no. I have asked the question and that is my question.

Mr. WANSBROUGH: Gentlemen, we have a panel of experts here. Perhaps Mr. Fraser would answer the question.

Mr. FRASER: There are a lot of factors in this that have not been defined but one measure of productivity in the mining industry is that of hours consumed per ton hoisted. We cannot very well control the grade of a ton of ore. The experience in my companies is that this relationship has been essentially a flat line over the last ten years despite the fact that we have poured in very large sums of money in mechanization. I would say we have been barely able to hold the hours consumed per ton hoisted despite all the mechanization we have carried on. I regret to point out that that cannot be an absolute comparison, for in a mine over 10 years you change your mining conditions, your depth of mining, and so on, but from an economic standpoint it is a very true comparison. It happens to be my own company that that wage figure comes from, and in the same period the take-home pay of all our hourly-paid employees has increased 104 per cent.

Senator CROLL: The point that I made was, of course, directly associated with only the mining industry, and the chart from which I read indicates the great disparity between what we call real wages and productivity per man hour. It is very much out of proportion. It seems that productivity has run away with the wage rates in that particular industry, and I gave you my authority for the chart, indicating they had made a study of it.

Senator REID: How could productivity increase unless you had more modern machinery? If a man is using a certain machine and his wages are increased, unless that machine is made to produce more how could the man produce more? It is all right to place bald figures before us but I am speaking from the practical point of view of a man who knows something about labour.

Mr. FRASER: The worker can only produce more if production methods are improved. That can be done by the way in which he works or by the supply of materials to his working place or the machine with which he works. During this 10-year period we are discussing there have been some tremendous improvements in mechanical equipment in mines. One tremendous improvement has been in the introduction of the so-called light drill or Swedish drill

which first appeared in Canada around 1946 to 1948, just after the war. That equipment has reduced very greatly the physical effort in "setting-up" in a mining operation. There has been tremendous improvement in the moving of broken rock underground with slushers. It used to be done with a shovel but I can almost defy you to find a shovel in a mine now. We use conveyor belts. The amount of physical work a man underground is called on today to perform in getting a ton of ore from the rock face to the hoist is very substantially less than it was a number of years ago. But, as I say, despite these improvements our own experience is that there has not been very much change in the level line relationship between hours of labour consumed for tons hoisted.

With respect to other types of mining, in the case of new mines where you have a chance to mine on a bigger scale with large open stopes, there have been some improvements, but I would guess that over the underground mining industry as a whole the change has been quite small. I will ask my colleagues to confirm that figure or otherwise.

Senator CRERAR: Of your total costs of operation what percentage do labour costs represent?

Mr. FRASER: It depends on the type of mining. In underground mining the figure would fall somewhere in the 60 to 70 per cent bracket or, let us say, 55 to 65 per cent, somewhere in there. The last figure I saw was 65 per cent.

Senator CRERAR: That is the direct labour cost?

Mr. FRASER: Yes.

Senator CRERAR: How do you find costs in the other requirements you have in your mining operations? For instance, you have electric power and freight rates and various items of that kind. Do they constitute an important factor in the increased cost of producing your product?

Mr. FRASER: The 65 per cent labour figure that I used refers to the cost of mining the ore, getting it to the surface and putting it through the initial stages of reduction. The freight rates come into the picture later.

Senator CRERAR: The 65 per cent represents the direct labour costs?

Mr. FRASER: That is the percentage of direct labour costs paid out by the mine with respect to all sums paid out.

Senator CRERAR: You get, then, into other costs. You are paying more freight rates today than you did 10 years ago?

Mr. FRASER: Oh yes, about 78 per cent.

Senator CRERAR: What about your lumber and timber costs?

Mr. FRASER: They have gone up very substantially. I have not got an index figure on that because we produce a certain amount of our own timber.

Senator CRERAR: You are fortunate in that respect, perhaps.

Mr. FRASER: Perhaps we are.

Senator CRERAR: Do you use coal or oil?

Mr. FRASER: We use a great deal of coke to operate a smelter.

Senator CRERAR: How does the cost of coke compare to what you paid 10 years ago?

Mr. FRASER: Ten years or so ago we paid $12 a ton and today we are paying $22.50.

Senator CRERAR: That is almost double.

Mr. FRASER: Yes.

Senator CRERAR: What about explosives?

Mr. FRASER: Explosives have shown perhaps the least percentage increase of almost any of our requirements.

Senator CRERAR: So that roughly your total costs in producing your product amount to two-thirds direct labour costs and one-third of all these other items we have been mentioning?

Mr. FRASER: Very roughly, yes. I am speaking, of course, about an underground mine. I am not speaking for a surface-type mine.

Senator CRERAR: I remember many years ago when I had the unenviable job of being Minister of Mines in this country I received from the late Donald McCaskil an analysis of the total expenditures of the International Nickel Company. My recollection is that it is about the same percentage that this gentleman has given; but timber from British Columbia, electric power, freight rates, are all detailed under about 25 headings.

Mr. FRASER: One of the touchiest items is that of the highest quality timber, and I would guess offhand it has increased between three or four times in the past ten years.

* * *

(*Later:*)

Mr. FRASER: I wish to amend my earlier statement that the highest quality timber has increased three or four times in the past ten years, to read it has doubled within that time.

Senator CRERAR: Well, it would be an interesting study to prosecute further to see what has been the cause of these increases outside of direct labour costs.

Mr. BRADFIELD: There must be some explanation to Senator Croll's inquiry, if that was the result of a serious survey. It occurs to me there might be one possible explanation that in recent years some of the large new operations have come into being, such as iron deposits in Quebec and Labrador, large tonnage operations without any prior wage structure, at low costs. Probably the whole trend in recent years has been for the mining industry to only undertake projects of that nature, that is, large tonnage operations. Not very small mines, no small gold mines, certainly, have come into being. Some 50 or so I believe have gone out of existence on account of high costs and the stationary price. I suspect there is some such reason as that, because certainly, and I think I speak for my colleagues, individually we have had no such experience as indicated in the reports referred to.

Senator LEONARD: Perhaps following on the same lines, Mr. Fraser has been good enough to give us a figure of 104 per cent as the increase in wage rates. Is that over a period of ten years?

Mr. FRASER: It was the actual current pay before deductions. That figure included overtime, and with or without mine bonus it is the same percentage increase.

Senator LEONARD: I take it that will be in current dollars, and no allowance has been made for inflation in that; and certainly the increase in real wages would be less than the 104 per cent. But relating that 104 to your own experience in your own mine, of the increase in the average productivity per man hour, has there been an increase greater than 104 in the average productivity per man hour in your own experience?

Mr. FRASER: Are you using "productivity" in the physical sense of ton price, or ton of metal produced?

Senator LEONARD: To whatever chart Senator Croll has produced, which I assume is well known to statisticians or economists, as to how much is produced on the average by a man working one hour.

Mr. FRASER: As I said before, our experience has been that the number of tons produced per man hour consumed has been almost a straight line, so there

has not been a productivity increase that you are speaking of; that could only take place in pit operations where you have gone into modern equipment. I would like to make it very clear to those of you who are not acquainted with underground mining that in many of our mines the men work two or three or four in a small room like this, and there are a great number of such working rooms. It is the output from all of those that together constitute a day's production. There just is not the opportunity for mechanization beyond a very limited extent in such areas. It is a completely different problem from where you are operating in an open pit or a very large ore body where you can get in with large equipment and break rock the way the surface contractor does in handling gravel.

Senator REID: Do the men individually produce more without the aid of modern machinery in spite of wages having increased? That is the whole question.

Mr. FRASER: I would say this, that I would think they are working more effectively or more skillfully, but probably not as hard physically as the result of the equipment that has been placed in their hands with which to work underground. We have just carried on a lengthy study on underground productivity, and I think that by and large that pretty well summarizes our contention that the men that we are using today are somewhat more skillful and perhaps better miners, but they are not called upon to do the backbreaking labour that they used to do underground.

Senator BURCHILL: You have given us an indication of how your costs have increased during the past ten years, or whatever period it is. What has been the increase in the market price of your commodity during that time?

Mr. FRASER: I have not got a weighted figure. But on copper, the selling price of copper today is about the same, I think as in 1948. On the prices of precious metals that have been produced the average selling price is the same or lower—I am quoting from memory, and I do not want to be tied down, but on the nickel metal that has been produced it is up about 50 per cent since 1951 and nearly 100 per cent since 1948. We do turn out in our annual report every year a weighted figure of the value of the metal in each ton of ore mined and compare that with the cost of the materials that we used in mining that ton of ore, and the increase in the value of metal per ton of ore mined is very much less; so the order is about 40-45 per cent, I think, as compared with the well over 100 per cent in the wage figure given.

Senator CRERAR: Notwithstanding the improvement in mechanization over a period of ten years the cost of producing, say, a ton of nickel has gone up?

Mr. FRASER: Oh, yes.

Senator CRERAR: About how much, roughly?

Mr. FRASER: Oh, do you mean a ton of nickel or a ton of ore?

Senator CRERAR: No, I mean the finished product.

Mr. FRASER: Very close to double.

Senator CRERAR: Supposing it is 50 per cent?

Mr. FRASER: It is about 100 per cent.

Senator CRERAR: Well, that 100 per cent increase has very materially affected the profit characteristics of the ore that is being mined. In other words, what was profitable ore ten years ago is not so now. Now, the net result of that over the period of operation of your mine would be to reduce the volume of wealth produced from your mine and would you agree—I think everyone in the committee will agree—that that will over the life of a mine reduce the volume of profit that it could give. So that these increasing costs, arising from whatever source they may, is really so far as future years are concerned reducing the volume of profit that your mine could make.

Mr. **Fraser**: That is quite correct.

Senator **Crerar**: Would you agree with that?

Mr. **Fraser**: Very definitely.

Senator **Macdonald**: Have you or your associates a definite opinion as to the advisability of an increase in the price of gold, and if an increase in the price of gold were brought into effect what effect would it have on the inflationary trend?

Mr. **Wansbrough**: Mr. Chairman, we are fortunate in having with us this morning Mr. Row, chairman of our gold committee, and Mr. Bradfield, president of Noranda, who will look after that question.

Mr. **Row**: I think that is a question which has to be answered by the Governments. As representing the gold mining companies in Canada I would say that we would very much like to see an increase in the price of gold. I am sure that you all recognize that you are paying out some $12 million per year in keeping alive a goodly number of the units of the gold mining industry. The need for that arises solely because of the inflation which has taken place. We concur in the opinion of Sir Roy Harrod that the present supplies of gold in the free world are inadequate to properly finance international world trade.

Senator **Macdonald**: I will not press that question further.

What effect would an increase in the price of gold have on the threat of inflation? That is the subject in which we are particularly interested.

Mr. **Row**: It is my belief that it would accentuate the current inflationary trend almost not at all, that an increase in the price of gold would simply be a recognition of the inflation which has already taken place.

Senator **Macdonald**: You do not think that it would result in an increase in the price of other goods and services?

Mr. **Row**: No, I do not. I truly see no connection. The price of gold has nothing to do actually with the cost of producing consumer goods and services.

Senator **Macdonald**: It would result in more spending dollars so far as the production of gold is concerned?

Mr. **Row**: Yes. The very fact that the price of gold has not increased in the last 25 years has not served to retard inflation. Inflation has gone rampant anyway. Conversely then, why would an increase in the price of gold, by increasing it in proportion to the degree of inflation be more than just a recognition of that inflation?

Senator **Woodrow**: The last time that the price of gold was increased, which was done by President Roosevelt, did that result in inflation?

Mr. **Wansbrough**: I think it was rather the dispersal of a depression.

Mr. **Row**: No, I do not feel that it did. The British made the first move in that rise in the price of gold. The price of gold was increased first of all in Great Britain and it was then followed by an increase by the United States. Certainly that had no bearing upon inflation. It was very greatly delayed because that took place in 1933 I believe.

Senator **Woodrow**: What was the result of the increase that followed, on general prices?

Mr. **Row**: I do not believe that the actual increase in the price of gold had any great bearing upon the prices of consumer goods and services.

Senator **Reid**: Is it not a fact that when gold was used as a standard it served as a brake on prices, and that since we have been off the gold standard the price of gold has had no effect on inflation?

Mr. Row: Yes, because of the very fact that we are not truly on a gold standard, we do not have the benefit of the control which the gold standard can have upon inflation.

Senator Reid: In other words, gold is no longer a brake on the market.

Mr. Row: It could be. If our paper money was again convertible into gold coin at the bank then we would have an automatic control upon inflation.

Senator Pearson: To what price would you suggest that gold would have to go in order to bring in a greater degree of production of gold?

Mr. Row: Let me start in this way to answer that. If E.G.M.A. were terminated now a great number of gold mines in Canada would immediately go on a salvage basis and within three, four or five years I think that 25 to 30 of the presently operating 50 gold mines in Canada would be out of business. Now an increase in the price of gold commensurate with the inflation which has taken place, not in the past 10 years, but in the past 20 years, would probably be 100 per cent, say from $35 to $70.

Senator Macdonald: You do not think that it would have a general inflationary effect on the world?

Senator MacDonald: You do not think that would have a general inflationary effect on the country?

Mr. Row: No, I do not. That would not increase the price of consumer goods or services. There would be the recognition of what has already taken place.

The Chairman: Why do not the powers that be raise the price of gold?

Mr. Row: Well, the powers that be apparently reside in the United States.

Senator Crerar: Would you agree that the use of gold is the backing for currency: that is, the restoration to the former conditions of affairs, where, if I took a $5 bill to the Bank of Canada and I wished to exchange it for gold, I could have done so—that would create a discipline over prices? It seems to me the distinction is this: owing to the war we got off the gold standard, so-called, in the currencies became loose, and they were floating on a wide ocean. They were under the control and management of supposed monetary authorities, and there was no natural discipline. Of course, the monetary authorities in various countries always had in mind the possibility of political repercussions; for instance, to avoid unemployment and things of that kind.

Now, I agree wholly with the witness, Mr. Chairman, that an increase in the price of gold should not have any inflationary effect at all. As a matter of fact, we have been off the gold standard; we have had a fixed price for gold for the past 25 years, and over that period our cost of living and inflation have gone up practically 100 per cent.

The Chairman: Do you think the gold that Russia is holding has any bearing on the United States' decision not to raise the price of gold?

Mr. Bradfield: I think so.

The Chairman: But you do not know what quantity Russia is holding?

Mr. Bradfield: There has been a great deal of speculation as to what gold Russia is holding, and it seems to a deterrent to the United States in raising the price or giving consideration to a price increase of gold. But it does not make sense to me; for if Russia had a lot of gold, they would certainly be making use of it; they would use it to pay for imports they desperately need.

We have some information from a very good source which points exactly to that fact, that Russia has been letting people believe that her gold production is much greater than I believe it is, possibly to upset our monetary system, of which gold is the base.

On company which has been an authority and a large trader in gold is Montague's of London, England. They used to publish figures and it is significant that on their last report this year they have refrained from making any reference at all to what Russia's production may be. I think that reports of excussive production can be largely discounted. In any event, if Russia's gold production is substantially more than that in Canada, should it be any deterrent? Should that prevent the world from enjoying the benefit that would accrue from an increased price of gold, which would make for a greater flexibility in national trade and a more fluid exchange of currency?

Senator WOODROW: Mr. Bradfield, you would not know how the cost of production of gold in Russia would compare with the cost of production in this country?

Mr. BRADFIELD: No.

Senator WOODROW: That is the secret.

Mr. BRADFIELD: Certainly it may be very expensive.

Senator HAIG: If you produce so many ounces of gold which is worth so much, would that not stabilize money on that basis in all countries which had the gold standard?

Mr. BRADFIELD: If the trading nations returned gold standard it would be a marvellous thing, because the politicians in countries throughout the world would have their activities in monetary control shown up.

Senator HAIG: That has nothing to do with making our money worth more than the American money.

Mr. BRADFIELD: No.

Senator HAIG: Somebody did that, and it is a very disastrous thing to us. We are suffering a tax of pretty nearly 4 per cent on all our goods we sell to to Americans.

Senator MACDONALD: It depends on whether you are buying or selling.

Senator HAIG: Mostly we want to sell.

Senator MACDONALD: We are buying a lot of products.

Mr. BRADFIELD: We are an exporting nation, largely.

Senator SMITH (*Queens-Shelburne*): Mr. Chairman, if the subject of gold standard has been pretty well exhausted, I would like to get on to another subject and to bring to the attention of the committee the wording of the second paragraph on page 8 of the brief. It states:

> It is also our belief that one of principal factors leading to inflationary pressures on our economy is the monopolistic position which some large, established labour unions occupy ...

I may say that, I think, is the commonly held view in this country today. But it is interesting to me, because in the first brief we had presented to this committee, Professor Knox, a professor of economics, had this to say:

> That the pressure for wage increases has become an independent and powerful inflationary factor has yet to be demonstrated.

I am wondering whether those who prepared the brief are thinking in the same terms as was Professor Knox. In order to get an answer to that question, may I ask whether or not they would agree with what Professor Knox says later by way of an answer to a question:

> ... I have not yet been convinced that its upward effect ...

That is an effect from a pressure of labour unions.

> ... upon the average level of prices will be great unless there are other strong pressures of an inflationary kind going on in our economy. One of them may be an anti-unemployment policy.

I wonder if you gentlemen would agree with that latter statement, that there must at the same time be other strong inflationary tendencies, of which this effect of labour unions is a part, and as a matter of opinion as to whether it is a large part or a relatively minor part. Perhaps that question should be answered by another economist.

Mr. BRADFIELD: Well, obviously labour costs enter into freight rates, which have gone up 48 per cent. It enters into it because labour and supplies are part of the whole fabric of the industry. It is a first and foremost inflationary measure in its whole effect on the industry.

Mr. ANDERSON: Is not labour a part of everything? No matter what you look at, labour is involved. Take your desk here—that is just labour resolved into a piece of equipment. Labour is involved in producing the timber, and right along the line, everything is labour.

Senator SMITH (*Queens-Shelburne*): Coming back for another moment to labour, do you not agree that the pressure for wage increases will be effective, and can be an important inflationary phase without some of these other things such as monetary and fiscal policies, matters that build up the money supply and make a great demand for certain productions, of which the labour unions take full advantage? They do it in newsprint and in copper, no doubt. But would not their position be weakened in their wage increase demands if no one was buying copper, and nobody wanted newsprint?

Mr. ROW: May I answer that? Without the implementing policies to which you refer the result would be increasing unemployment which would automatically counter the efforts of the labour unions, but with the absence of the gold standard, where there is not that rigid control of money supply and there is not disciplinary control over Governments in the creation of new money, and with the fact that practically all Government policies today are towards full employment which means not more than 3 or 4 per cent of unemployment those things, coupled with these monopolistic powers and positions of labour unions, do create an irresistible force. It gives the monopolistic unions power which even Governments themselves cannot resist, and an example of that is in the Canadian railroads.

The CHAIRMAN: Honourable senators, may I draw your attention to the fact that we have some representatives here from the Investment Dealers' Association of Canada, and the hour is getting late. If you can confine your questions so that they may be heard shortly it would be very much appreciated. If here are no other questions I would like to thank you, Mr. Wansbrough, and your distinguished associates. I am sure your brief will be taken into consideration.

Honourable senators, I will now ask Mr. Alexander of the Investment Dealers' Association of Canada to present their brief.

Mr. N. J. ALEXANDER: Mr. Chairman and honourable senators I would like first, to introduce my three colleagues. I have with me Mr. M. D. Cox who is a Director of Anderson & Company Limited of Toronto, and Mr. George Cretzianu, a Vice-President of Greenshields & Company of Montreal. Mr. Cretzianu was formerly the General Manager of the Banca Romaneasca in Bucharest, Roumania. He has been through two very bad inflationary periods, so I am sure he can speak with feeling about them. My third colleague is Mr. H. L. Gassard, Managing Director of the Investment Dealers' Association of Canada.

The Investment Dealers' Association of Canada welcomes the opportunity of presenting this brief. We sincerely hope that it and the ensuing period of interrogation will help to shed some light on the impact of inflation on savings and investment.

The most usual symptoms of the phenomenon of inflationary conditions are the deterioration, or fear or expectation of future deterioration, in the value of money, accompanied by rising costs and prices. Economists tell us that the causes of inflation are many. Some of those most commonly suggested are:

> Shortages in supplies of goods and services relative to demand.
>
> Too large a portion of the G.N.P. being devoted to capital spending.
>
> Too large a portion of the G.N.P. being devoted to consumer spending, i.e. so-called consumer spending sprees.
>
> Too large a portion of G.N.P. being devoted to non-productive expenditure, e.g. during war-time.
>
> Monopolistic positions in labour and/or industry where advantage is taken of the position to raise prices or create artificial scarcities.
>
> Chronic government deficits, particularly during times of improving levels of business.
>
> Disproportionate increases in the supply of money or credit, in relation to the supply of goods and services.

It is evident that all of the above have contributed from time to time during the post-war years to the present situation in which we find that those with savings are reluctant or unwilling to commit them at long term and at fixed rates of return. Investors apparently lack confidence, because of the fear of future declines in the value of money and the expectation of higher rates of interest in the future to attract those with savings. Typical has been the increase in public holdings of Government of Canada bonds since last fall. From September 30, 1958 to April 30, 1959 this increase amounted to $1,769 million but over 95% of this was in Canada Savings Bonds (repayable on demand) or in bills or bonds due in two years or less. In other words, gentlemen, those who have bought Government bonds have limited their acquisitions to those which can be cashed on short notice with a minimum loss of capital. We, in the investment business, believe that the most important prerequisite for encouraging investment is a condition under which investors, or would-be investors, are convinced of the present and future stability of the purchasing power of our currency unit. Current stability alone is not sufficient. Investors require, and are entitled to anticipate future stability as well, together with some assurance that they will not be faced with confiscatory taxation on income. Without such conditions, distortions are bound to arise in the capital markets, since there is little incentive to lend at a time when borrowers, both government and corporate, require capital.

Inflation and its symptoms are not something new, although there is perhaps a more general awareness of the problem today than at any time in the past, even if that awareness is somewhat vague. The history of inflation is a long one, ranging back to at least the times when monarchs reduced the gold content in their coinage to pay their mercenaries. However, there is no need to regard it as inevitable, and indeed there have been many protracted periods of price stability, and increases in price levels have been far less chronic than many suspect. In general, periods of price instability have been most obvious during the after wars, when money or credit has been extended to finance non-productive expenditures. No less an authority than Graham Towers[1] has stated:

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[1] At an address in Toronto on November 14, 1957 to a joint meeting of the Toronto Chapter of the Institute of Chartered Life Underwriters of Canada and the Life Underwriters Association of Toronto.

> Nowadays, when so many people seem to have the impression that the value of money has been going down in war and in peace for many generations, and that there is something inevitable about the process, I think it is worth while to remember that this has not in fact been the case in countries which have any claim to fiscal and monetary responsibility, except as an adjustment to the financial consequences of war.

One of the greatest problems in combating inflation is that it may appear to be desirable in the short run and has appeal to many people who are more inclined to put emphasis on the short run rather than to assess longer term effects. Others tend to look upon "creeping inflation" as a somewhat lesser evil than checking a price spiral through controls or rationing. Surely, those who are sympathetic towards "creeping inflation" are overlooking how essential the savings of the public are to a capitalistic democracy. Public savings are, of course, the main source of capital accumulation upon which national growth and prosperity depend.

Some examples of the apparent short run attractions of inflation include:

Unions seeking higher pay for less work, without compensating higher productivity.

Farmers asking for price supports and subsidies.

Businessmen welcoming price increases and hence enlarged profits, without offering an improved product.

Pensioners pressing for enlarged old age payments.

Governments seeking to enlarge social benefits in order to increase voter popularity.

It goes without saying that all groups expect their enlarged benefits to be in dollars of stable purchasing power. In other words, they seek something for nothing at the expense of the other fellow.

This Association believes that the general public, as well as governments, must be made aware of the following facts. The money supply can be increased without limit but this only results in bidding up prices and does not produce any additional real wealth. Actually, as people come to expect more and more inflation, such a process ultimately lowers the standard of living by encouraging speculation rather than production, and by allowing inefficiency and wastefulness to flourish. Furthermore, continually rising prices—or the expectation of rising prices—stimulates spending and discourages the saving needed to finance the new and productive capital equipment on which a rising standard of living depends. The bulk of saving takes place through the medium of fixed dollar obligations. For example, in Canada in the two years 1957-1958, net new issues of government and corporate bonds and preferred stocks amounted to 87% of all new financing, while common stocks accounted for only 13%. This excludes the substantial sums invested in mortgages, which are, of course, all fixed dollar claims. At the end of 1958 there were outstanding some $24.1 billion of Canadian bonds, an estimated $9 billion of mortgages, and $6.8 billion of personal savings deposits—a total of $39.9 billion against a very much smaller total of Canadian common stocks. A rise of 2.6% in consumer prices, such as occurred in 1958, constituted a hidden, undeclared and inequitable tax of over $1 billion on these fixed dollar claims. It should be remembered that the bulk of these fixed income investments were held by, or held in trust for, millions of Canadians.

We believe that the cure for inflation, while not pleasant, is infinitely better than the disease. It may be painful to bring about economy in government, to maintain credit policies which restrain excessive monetary demand, and to

introduce measures designed to sharpen competition and promote the most efficient use of our existing resources. However, it will be far more painful if we undergo a gradual deterioration in our real standard of living as a result of inflation, particularly if the situation is allowed to deteriorate to the point where it brings about an economic disaster of the old-fashioned kind. It is obviously better to face up to this danger now than to wait for a crash to occur—or to allow a situation to develop like that in Chile, where the cost of living is now 9½ times the 1953 level and real manufacturing production is unchanged from its level 6 years ago despite a substantial population increase. Incidentally, the commercial bank rate in that country is now 15.5% and other rates are proportionately higher. It is significant that West Germany—with the memory of two inflationary disasters fresh in the minds of its citizens—has, while pursuing a stern anti-inflationary course, registered since 1953 the largest gains in employment of any country in the Western world. Britain and France have also faced up to their inflationary problems with beneficial results, although in the latter country particularly, the delay in taking fundamental steps has meant that a program of considerable austerity has had to be introduced.

We do not subscribe to the theory that a little inflation every year is necessary to maintain full employment. In the last twenty-five years, or so, many governments have taken responsibility for maintaining high employment through such means. We reject the concept and again to quote Mr. Towers, who presented a most lucid reason:

> . . . there would appear to be something farcical about a system which penalized 100% of the people in the hope of gaining some benefits for a changing group of say 2% or 3% of the working force.

Nothing we have stated above is designed to infer that there may not be periods when the government can, and perhaps should, increase the supply of money and credit anymore than corporations or individuals should be discouraged from making short term bank loans for proper purposes. However, the government, the same as everyone else, must keep in mind that loans must be repaid and borrowing must not be in excess of future ability to retire debt. If the government is unable, or unwilling, to retire debt so created, inflation becomes inevitable.

The following quotation from an address last winter by William McChesney Martin,[2] Chairman of the Board of Governors of the Federal Reserve System, is illuminating:

> Whatever the justification for deficit financing in time of recession—and at best I sometimes think there is a good bit of wishful thinking involved—there can be no question that when business is improving and moving actively toward higher levels, a budget deficit becomes fuel on the fire of inflation. In effect, it pumps air into the business structure as if it were a balloon and eventually leads to more serious recession when the balloon pops than would have occurred if it had not been indulged in. Again let me say, this is not pleasant, but with due respect to these people who talk about modern times and outmoded classical theories, what I am saying is based on time-honored and time-tested principles that are as valid and inescapable today as they have been down through the ages.

The functions of the Members of this Association are many and varied. Perhaps one of the most important is the bringing together of borrowers and lenders, both of which must be advised. Obviously, from the point of view of staying in business, a dealer's advice has to be, on balance, sound, and from

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[2] An address on December 12, 1958 before the Executives' Club of Chicago.

the moral point of view, his recommendations must be in everybody's best interests. In inflationary periods, he, in all honesty should recommend caution to his clients. This is particularly true of the comparatively small investor who is likely, also, to be the least sophisticated and less able to protect himself from the declining value of the dollars represented by his investment. Marriner S. Eccles[3], recently speaking in Washington stated, in part:

> Why should anyone buy... fixed interest-bearing obligations payable at a future date in dollars depreciated at the admitted "creeping inflation" rate of two to three per cent a year? For the Government to sell such obligations and to permit conditions to develop where not only their obligations but all other fixed dollar obligations are being paid, including interest, in dollars depreciated from two per cent to 50 per cent, depending upon the maturity dates—is to say the least immoral if not downright dishonest.

Many Members of our Association have in recent months cautioned governmental bodies, investment institutions and the public generally of the threat of inflation which currently exists. This has been done in many ways, ranging from personal discussions to widely circulated mailing pieces. Mr. E. H. Ely[4], our Past-President, had stated:

> Perhaps I could summarize the general picture over the past twelve months by saying that confidence in government bonds has continuously deteriorated—the direct result of the government's spending policy and its inflationary implications... The whole capital market seems distorted and out of balance when there is such a wide spread between interest on gilt-edged bonds and return on "blue chip" stocks. Does it make sense for governments to be paying 5¼% to borrow money when many corporate equities yield only 2½%?

We believe, sincerely, that these warnings are made in the general public interest much more than from the point of view of our own self-interest. After all, our profits from dealing are generally not affected by whether the coupon rate on a bond is 3% or 6%. We believe that stable currency values are essential for investment capital to be obtained for the development of our country, not only from the savings of our own citizens, but from abroad. We also believe that if Canadian industry is to prosper, it must be able to compete profitably in domestic and world markets. This is particularly important to a country such as ours where export trade accounts for such a large proportion of income. Canada depends on export markets for some 20% of its income compared with, for example, only about 6% in the United States. It is also becoming more important with the resurgence of European economies and the development of the European Common Market. It must be obvious that a loss of export markets and/or a partial loss of our domestic markets to foreign imports would be disastrous. We can only be prosperous if our industry can produce, competitively, both as regards price and quality, internally and externally.

We do not believe in controls on prices, or wages, or the imposition of rationing of goods and services, or arbitrary allocation of capital. Such steps may have a delaying effect on inflationary tendencies during periods of governmental deficit financing but the public will only submit to them during periods of national emergency, and after relaxation of controls, tend to attempt to make up for lost time in their consumer spending. In peace-time, however,

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[3] On March 25, 1959, testifying before the Joint Committee on the Economic Report. Mr. Eccles was a former Chairman of the Federal Reserve Board.

[4] On June 9, 1959 at the IDAC Convention at Banff.

we are sure that such bureaucratic controls would be abhorent to freedom-loving Canadians. Such being the case, a more orthodox and fundamental approach seems to be indicated.

We firmly believe that a tight rein on expansion of the money supply or a policy of credit restraint, together with a balanced budget, can create an atmosphere necessary to encourage saving and investment. Credit restraint involves fewer dollars available relative to the supply of goods and services, and after all, if the money supply can be held in check, inflation cannot go far. Furthermore, if the government operates with a surplus, it is enabled to retire debt. We believe that recent statements by North American Central Bankers show that they are in sympathy with these concepts. James E. Coyne, Governor of the Bank of Canada, in his report for 1958 to the Minister of Finance, made the following comments:

> Looking back over the course of developments in western countries during the past ten years or so, I cannot escape the conclusion that we could have achieved as great an increase in output and employment, and at the same time avoided many of the difficulties and hardships caused by inflation or fear of inflation, if governments and central banks had given higher priority to maintaining the value of money... I believe that monetary policy must strengthen and re-affirm its determination to remain true to the basic principles of sound money. Perhaps the greatest obstacle to the proper use of monetary policy is the spread of the theory that democracies cannot have both high employment and stable prices, that they must inevitably choose between unemployment and inflation, that high employment can only be achieved by the acceptance or even the deliberate creation of some degree of inflation. I am certain that these views are fundamentally wrong... In the end, inflation creates more unemployment than it temporarily cures; it badly hurts many who have no way of protecting themselves against it; it discourages economic efficiency and lowers productivity; it is the great destroyer of economic order and social stability.

Mr. Martin[5] of the Federal Reserve System, recently stated publicly:

> ... it is essential at this stage of the economic cycle that the Government should attain a balanced budget and then achieve some surplus as economic advance continues. Whatever the desirable level of expenditures, deficits, while justified in time of recession, should be avoided when the economy is at a high level of activity.
>
> It is also of vital impotrance to have a healthy, broad-based Government securities market that enables the Treasury to lodge its debt outside the banking system. In other words, the Treasury must be able to compete effectively and flexibly with other borrowers for the available supply of savings.
>
> Appropriate debt management policies, while contributing to financial stability, are in turn dependent on such stability. Investors cannot be induced to purchase fixed income securities if they fear a steady erosion of the purchasing power of the dollar.
>
> Resort to financing Government deficits through the banking system entails the creation of new supplies of money rather than the use of existing funds. In a period of high economic activity, this is a high road to monetary inflation. There can be no effective control of inflation if the banking system is made the major source of funds to finance government deficits.

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[5] On February 6, 1959, before the Joint Economic Committee of Congress.

It is apparent that there is a growing awareness in governments of the doctrines of Messrs. Coyne and Martin. We are all familiar with President Eisenhower's determination to achieve a balanced budget and, of course, Finance Minister Fleming's recent Budget forecast called for a reduced deficit.

In the latest Budget, one constructive change was the upward revision from 2% to 3% in the tax formula for the Old Age Security Fund. Aside from the sound principle of placing the Fund on a self-sustaining basis, the higher levy on personal incomes should make citizens increasingly aware that they themselves must pay for universal social security benefits of this kind. Although the increase in personal income taxes applies to only 800,000 of the 4,600,000 individual taxpayers, the heavier corporation tax has an impact on practically everyone and the higher sales taxes also have widespread effects. In the final analysis, every individual in the country is affected directly or indirectly by increased taxation and anything which makes more taxpayers aware of the purpose of the taxes they pay should be encouraged in order to create a general realization that money for social security payments must be obtained somewhere. We believe that because non-defense items including the cost of Old Age Security in the Federal Government's Budget have increased by more than 60% from fiscal 1953 to fiscal 1959 while G.N.P. has increased less than 35% during the same period, the entire social benefit program should be reviewed. Balancing the Budget, however, by tax increases has limitations which are already close to being reached. More careful scrutiny of governmental expenditures should be given even higher priority.

Presuming that an example of thrift by the government in their spending will be followed by all segments of the community, there appears to be no reason why our country cannot grow and prosper. However promises by government are not enough under present conditions. The public must be "shown" and the process will take time. When fears of inflation are dissipated people will be encouraged to save and invest, both in securities and their own independent social security programs, such as pensions and life insurance. In this way, adequate capital will be available and will be attracted to meet productive commercial, and the necessary social, capital requirements. It is the experience of our industry that the greatest sustained economic growth takes place when conditions exist which encourage savings and investment. The nation generally is working toward a higher standard of living which requires growing amounts of both enterprise capital and social capital. We believe that a stable price level and sustained economic growth are not only compatible, but essential one to the other.

To summarize our beliefs:

1. Currency stability is essential since public savings are the basis for our economic growth.
2. Inflation is neither inevitable nor desirable.
3. Inflationary trends must be confined otherwise our export industries, which are major employers of labour, will tend to become less competitive.
4. We reject controls as a means of checking inflation and put our faith in credit restraint and balanced budgets, the latter to be attained by economy in government rather than through increased taxation.

The CHAIRMAN: Thank you very much, Mr. Alexander. The meeting is now thrown open for questions. Senator Croll?

Senator CROLL: Would you care to express a view, in view of a forecast of a 7 per cent increase in the gross national product, and it is evident that there is some increase, employment in this country being higher than it has

ever been, business increasing, and has indicated a considerable profit in the first quarter, why it is that the Government is paying interest rates in some instances higher than that of private industry? Why is there a reluctance to lend money to the Government except at what we consider to be the highest rate in memory?

Mr. Cox: I think that perhaps one of the basic reasons why the Government is having difficulty raising money is that until last year it was a consistent retirer of debt and for the first time since the war it has become an issuer of debt. This change has thrown out of balance the relationship in yield differentials between Government credits, credits of municipalities and credits of corporations. Government bonds, while also the most widely held of all bonds, came into some disrepute when the many people who bought Victory Bonds found them selling at a discount and having to take a loss if they required the money for some other purpose. There tends to be some protective aspects for the markets for corporation bonds such as sinking funds, purchase funds, that tend to attain a greater market stability. The last Canadian National Railways issue contained a purchase fund which I think is the first time the Government attempted anything along that line, but apparently the apathy was such that the public did not participate in the issue to any great extent. I think it is a lack of confidence in Government financing.

Senator Croll: That is what I thought you would say. Let me carry it one step further. I belong to the old-fashioned school and I believe I am in the vast majority who think that there is nothing as safe and as good as a Government bond. Am I now in a minority?

Mr. Cox: I do not believe so, but people do not seem to think in terms of buying bonds which are quoted every day and for which a quotation can be found in every newspaper, from investment dealers, trust companies and so on, as a permanent investment, perhaps in the way they are inclined to purchase or take on a mortgage, where there is no sort of marketability to the extent that there is on bonds. There is a lack of confidence that has developed and despite the liquidity that corporate accounts and individuals found themselves in last year the acquisitions they made were only in securities which were of very short-term or payable on demand at any time, and I think that perhaps this is something that maybe the Department of Finance or the Bank of Canada could answer better than I can, but the public have been a little spoiled with Canada Savings Bonds where their money can be obtained in the matter of a few minutes.

Senator Croll: Is that not an asset rather than a deterrent?

Mr. Cox: I think it is obviously to the advantage of the buyer of such a bond as opposed to a bond of 20 to 25 years' maturity, the buyer knowing that while he has a little lower rate of return he can get his money back at any time he wants it.

Senator Croll: I would refer you to page 11 of your brief where you say: "We believe that because non-defence items including the cost of Old Age Security in the federal Government's budget have increased by more than 60 per cent from fiscal 1953 to fiscal 1959 while G.N.P. has increased less than 35 per cent during the same period, the entire social benefit program should be reviewed."

Now, I draw the conclusion from that that you are saying in effect that it should be reduced. That is what you are saying, is it not?

Mr. Cox: What should be reduced?

Senator CROLL: The entire social benefit program. When you say it should be reviewed, what other purpose could there be than reviewing it in order to bring it into line, to bridge the differential between the 60 per cent and the 35 per cent. That is the conclusion I reach. Is it wrong?

Mr. COX: If we carry social security far enough, and if we can presume the money has to be found some place, that we are not necessarily just going to print it, taxes must be increased, and if all our taxes are increased to the point where we have nothing but a bare livelihood left the Government presumably in its wisdom will provide all the capital necessary for any development of our country. We do not subscribe to the opinion that Government is able to do that better than individuals.

Senator ASELTINE: I do not think that is an answer to the question.

Senator CROLL: Well Mr. Cox, you are our guest here and you are trying very hard to answer the question. I summarize it by saying that that was the conclusion I came to which gave you an opportunity to say that was not what you meant, but you did not say that, and the only conclusion I still can come to is that what you are saying is in effect, you are either saying the Government should hold the line on social benefits now or you are saying that it should be reduced, and I think what you are saying is that it ought to be reduced in view of the disparity between the budget increase and the gross national product increase, one being double of the other.

Mr. COX: I would say that the social spending has increased too rapidly. I do not say it should be reduced.

Senator THORVALDSON: Isn't this what you are trying to say, that in all commonsense, there should be some relationship between the expenditures on social services and the gross national product? That is what you are trying to say, is it not?

Mr. COX: Yes.

Senator THORVALDSON: And if the expenditures on social services are away out of line to the increase in the gross national product there will be much less savings for investment purposes and our country cannot expand as it otherwise would. Is that not what you are really trying to say?

Mr. COX: Yes.

Senator HAIG: Mr. Cox, your brief says that money is short, and that people are cashing their bonds. Well, why don't they go to the bank and get their money at 3, 4 or 5 per cent, as they have always done in the past, why don't they go to the banks and get it? I may give you the answer.

I notice in the newspapers in the city of Winnipeg, and I presume in all cities, an advertisement running something like this: We hereby agree to pay you 5½ per cent, or 5¼ per cent on money deposited for two, three or four years. When these companies get that money they relend it at 7¼ per cent. Now, naturally people will not go to the bank to put their savings there, they are going to put it in that investment company. Now, where is the bank going to get the money to lend? If I want money to finance my business I am not able to get it at the bank. Is that not the situation that is existing right now?

Mr. COX: There may be some of that, senator.

Senator HAIG: Not some of it, all of it. In Manitoba these loan companies who charge 12 per cent interest are offering 5½ per cent right now, with good security, the security is gilt-edged.

How can the bank get the money to lend to me? If I go to a banker to borrow $5,000 to repay my house, he thanks me for coming, but he says

he cannot lend me the money because he does not have it. I can go across the street to a trust company or a finance company and they will lend it to me at 7½ per cent. My choice is to sell my 5½ per cent bonds rather than pay that interest. Isn't that what is happening?

Mr. Cox: I don't agree with that. It is happening sometimes, but I don't believe it is universal. Witness the fact that savings are growing all the time.

Senator Haig: How much money is being spent by the public in that way today?

Mr. Cox: I don't know.

Senator Haig: I venture to say it is $25 million a month.

Senator Macdonald: I would like to revert to Senator Croll's first question in which he referred to the interest rate on industrial securities—by industrial securities I am referring to bonds and debentures only—in relation to Government bonds.

In relation to our study of inflation, I cannot understand why a person would buy an industrial bond bearing 2½ per cent in preference to a Government bond bearing, say, 5 per cent. I can understand why such a person would buy a common stock with a smaller yield rather than a Government bond, but I cannot see the reason for the purchase of industrial securities, the type which has been mentioned here, as against Government securities.

I would like, if the witness could relate the trend on the part of the public to buying common stocks to the trend to buying industrial bonds.

Mr. Cox: I think perhaps there is some misunderstanding, sir, if you are referring to the part in the previous brief where we quote Mr. Ely, the past president, where he says:

> "Does it make sense for Governments to be paying 5¼ per cent to borrow money when many corporate equities yield only 2½ per cent?"

I know of no corporate bonds that yield 5¼ per cent.

Senator Leonard: Mr. Cox, the situation at the moment is, if you have a Dominion of Canada bond at say 4 per cent, and a corporate bond bearing 4 per cent, the Dominion of Canada bond will still sell at a higher price than will the corporate bond.

Mr. Cox: Yes.

Senator Leonard: Let us not have any misunderstanding: the credit of the Dominion of Canada vis-a-vis any other credit in Canada, is still high?

Mr. Cox: It is still the prime credit.

Senator Leonard: We are only talking here about some situation where there are corporate bonds with a sinking fund, or the company is buying in those bonds; or there may be a market situation with respect to some bonds which reflect a higher price vis-a-vis a Dominion of Canada bond. Is that not the situation?

Mr. Cox: Yes sir.

Senator Macdonald: A person does not buy industrial bonds as a protection against the possible threat of inflation?

Mr. Cox: Not unless it has a conversion privilege or a warrant or some equity provision attached to it.

Senator Macdonald: Do you think that course should be followed perhaps?

Mr. Cox: I think there might be a limit to what corporations will pay for the money they will borrow. They may do it either by a conversion privilege or a bond with a warrant or a bonus of common stock, or they may go directly into an equity situation, and sell some stock equity to get capital.

Senator MACDONALD: At the present time they don't have to have any additional benefit of cash to the bond. Industrial corporations can sell a bond now yielding a lower rate than a Government bond.

Mr. COX: I don't believe so.

Senator MACDONALD: Not now.

Mr. COX: No sir.

Senator WOODROW: No, and they never could.

Mr. COX: There may have been isolated cases in the post-war period, but they have been very few.

The CHAIRMAN: What effect do the growth funds and the mutual funds have on the investment in bonds? I know many people who ordinarily would buy a $500 bond, are now being persuaded to go into mutual funds. Does that have any effect on interest rates?

Mr. COX: I think it is bound to. Perhaps Mr. Alexander could better answer that question.

Mr. ALEXANDER: No doubt there has been a great increase in the public interest in mutual funds, and that increase has come about largely through the fear in the public mind of inflation. A few years ago mutual funds were not known to the general public; now they are very much in the forefront. We find in the United States that they are bringing in a variable type of term insurance tied in with mutual funds. In other words, you will find that nearly every one nowadays—I am talking about the investment public—talk about mutual funds even more than they talk about Government bonds. That has come about through the fear of inflation.

The CHAIRMAN: Do you not think there is a certain amount of speculation there too? People take note that these mutual funds were worth so much 10 years ago, and today they are worth three times that amount. The prospective investor sits down and decides that he or she is going to look to capital gain as well as earning some interest, and they go into a mutual fund rather than directly into the stock market.

Mr. ALEXANDER: You must remember of course that these mutual funds are buyers of bonds—true, a small percentage—they primarily buy common and preferred stocks.

Senator MACDONALD: Mr. Chairman, I would not like to cut off the discussion on this subject, but time is getting on and we have with us a witness who has lived under serious inflationary conditions, and we would like to hear from him.

The CHAIRMAN: I think Senator Woodrow has a question.

Senator WOODROW: On page 8 of the brief we see these words:

> Canada depends on export markets for some 20 per cent of its income compared with, for example, only about 6 per cent in the United States.

Does that not bring up the question that we need more people, more taxpayers and more immigration? What do you think?

Senator CRERAR: We are getting off the track, Mr. Chairman.

Senator WOODROW: You are looking for a remedy to this situation, and I am asking if that would not be a good remedy.

Senator CRERAR: You are sidetracking the discussion.

Senator WOODROW: Certainly not. If we get more people we have more consumers and more taxpayers.

Mr. **Alexander**: I think the long-term view of that is definitely we would like more people, and we hope Canada will grow. But the exports are with us now, and we have to get the money for them. The United States do have a great mass of population.

Senator **Woodrow**: How did they get that population after the Civil War? What did they do?

Mr. **Alexander**: They got it by immigration.

Senator **Woodrow**: There you are. Is not that a remedy which will correct the situation you speak of?

Mr. **Cox**: Over a very long period I think it might be.

Senator **Smith** (*Queens-Shelburne*): I have just one short question before we leave this. A reference has been made to the west German situation where they took stern anti-inflation measures, and as a result, I presume it follows, they had the largest gains in employment in the western world. What were some of those measures? Were they monetary and wage controls, or what were they?

Mr. **Alexander**: One of the methods by which Britain and Germany and Japan have been able to keep their people working is the fact that they have been prepared to pay a high return for money. In other words—

Senator **Smith** (*Queens-Shelburne*): Higher than ours?

Mr. **Alexander**: Higher than ours. As high as 9 per cent in Japan, and as high as 8 per cent right now in Germany. You saw where Britain just over a year ago had its discount rate up as high as 7 per cent. Money which was in their country they wanted to stay there; they did not want it to go elsewhere, and they were prepared to pay a high rate of return for it. It is for reasons such as that that they had the funds available to carry on and manufacture and sell the goods.

The **Chairman**: Mr. Cretzianu, would you mind answering some questions? Maybe you can tell us something about the inflation that took place over in Europe.

Senator **Macdonald**: Can you give us a short history?

Mr. **Cretzianu**: I am afraid, sir, it would take a lot of time, but I would like to stress the fact that the situations are not comparable, and nothing I will say can reflect on the present situation in Canada. The situation in Canada now is such that any fight against inflation has the best chance of succeeding. The greatest danger I see at the moment is not in the conditions leading to inflation but, rather, in the mentality or the state of mind of the people where they are afraid of inflation. Being afraid of inflation means, first, that there is an inducement to go into debt to profit by the presumed depreciation of currency to make quick profits. If I know that this watch will be worth 20 per cent more in a year or so then there is an irresistible temptation to go to a bank and ask for a big loan and buy a carload of watches.

That has been something we have seen in eastern Europe. A few people who were more in the know than others, who knew that inflation was coming, made very great profits out of inflation. They could do that as long as they could get credits from the bank. Then, after a few years it no longer was possible to get these credits. The banks would not lend money, and the situation became bad.

In these countries there were unbalanced budgets, and there were other conditions all making for inflation, and the second phase of inflation came when the people tried to get rid of currency to get into goods. Everybody knew that he would sustain a loss if he kept his savings in a bank or if he kept

his money at home, or if he kept his money in Government bonds, and there was a very strong inducement to get rid of the money and to get into goods—any goods.

That situation, of course, at one time or another, forced the Government to take stern measures which in themselves brought more misery than unemployment and the other evils they were trying to prevent.

I have seen creeping inflation. I have seen galloping inflation. And, I have finally seen the disaster that occurs when the currency is worth absolutely nothing, and a new currency has to be substituted.

Senator MACDONALD: Did that take a considerable period of time, or—

Mr. CRETZIANU: There was a creeping inflation between the two wars, and then there was, after the Second World War, this galloping inflation which ended in 1946 by a new currency being substituted for the old.

Senator LEONARD: This was in Roumania?

Mr. CRETZIANU: That was in Roumania, but I think this applies to other countries in eastern Europe.

Senator CROLL: Can you say, roughly, how you would define "creeping inflation"? What is in your mind when you speak of that, in percentages or—

Mr. CRETZIANU: Well, it has been said that inflation which would bring an increase in prices of 3 per cent a year would be a creeping inflation, which some economists have described as being not too dangerous.

Now, what I wanted to add is something about the situation as far as Government securities are concerned. In all these countries there was a time when absolutely nobody—not even the life insurance companies—would buy Government bonds, not because they did not have complete faith in the ability of the Government to service these bonds but because they knew that these bonds would be paid in a currency which would be 30 or 40 or 50 per cent lower than the one which they invested. Consequently, the Government was obliged to finance its deficit by taking measures whereby the banks had to buy these bonds. The Government of Roumania passed a law by which each bank was obligated to invest 35 per cent of its deposits in Government bonds. The only thing the banks could get from the Government was a counter-obligation from the central bank that they could have these bonds redeemed without loss, and that was done just to give some security to the depositors. That, of course, fed the inflation even more.

Our experience was that we would buy Government bonds with 35 per cent of any new deposits, the Government would use the money and spend it on defence and other expenditures, and it would come back into the banks in the form of deposits, and the banks would again deposit 35 per cent of it, and this went on and on, and the supply of money grew constantly. This was, of course, caused by deficit budgets which in that country, at least, were the main cause of inflation.

Senator CRERAR: What were the budget deficits due to under those circumstances? Was it because of a failure to tax adequately?

Mr. CRETZIANU: First, the Government, for political reasons, did not put high enough taxes on the agricultural class, which was 80 per cent of the population in Roumania and which was the one able to balance the budget. Because of these insufficient taxes and because the Government at the same time went heavily into defence expenditures between the two wars, and all these countries in eastern Europe were preparing for war, there was a periodic unbalancing of budget.

Senator CONNOLLY (*Ottawa West*): I think this brief is very helpful but I do notice that there has been no discussion in it of the effect of the enormous defence expenditures upon the inflationary problem. Would some of the

gentlemen representing the Investment Dealers' Association of Canada care to make some comment on that? I notice there is considerable talk in here of social service expenditures. I suppose in a sense they are controlled. Defence expenditures are almost of an uncontrollable order. Perhaps one of the members of your delegation may have something to say about this.

Mr. Cox: I think that is something that is rather beyond our field, sir. We would have no way of knowing whether the money that is being appropriated and spent on defence is adequate, necessary or desirable. Obviously in this day and age we need some sort of defence but what form it should take is something that is out of our field.

Senator CONNOLLY (*Ottawa West*): Do you find there is any reluctance on the part of the people with whom you associate to continue defence expenditures?

Mr. Cox: There may be a feeling in some circles that the Government is not getting value for its money; but how you attempt to eliminate or overcome obsolescence factors is something I do not have any knowledge of at all.

Senator CONNOLLY (*Ottawa West*): And obsolescence is a fact of life in defence today.

Mr. Cox: Very much so, senator.

Senator MACDONALD: The people who express that opinion may not be very well informed.

Mr. Cox: No.

Senator CRERAR: On the whole savings bonds have been popular, is that not right?

Mr. Cox: Yes.

Senator CRERAR: Have you any idea of the amount that is outstanding today in savings bonds?

Mr. Cox: About $2,800,000,000.

Senator CRERAR: What has made them popular, the fact that they are cashable at any time?

Mr. Cox: Yes, and at par.

Senator CRERAR: Would that be the most important factor?

Mr. Cox: Yes.

Senator CRERAR: What would happen if the public suddenly got the notion that it would be better to cast a lot of these bonds in right away?

Mr. Cox: I look upon it something like the fellow who has $1,000 in a bank account and elects to buy $1,000 worth of Canada Savings Bonds. He is more or less transferring a bank deposit to the Government, and the same thing to some degree would happen to the Government as to a bank if there was a run on the bank through lack of confidence.

Senator CRERAR: Do you find that the desire on the part of the public—and when I speak of the public I am not including insurance companies—to purchase long-term Government bonds running over a year or two has weakened a good deal?

Mr. Cox: That is right.

Senator CRERAR: What is that due to?

Mr. Cox: I think it is a fear not only that the dollars they will get back on maturity would be considerably less valuable than the dollars they paid for the bonds, but a fear of a declining price. I think there is an inclination towards inertia—"Let's leave the money in the bank".

Mr. ALEXANDER: So many have bought bonds to find that the next week they are lower in price.

Senator LEONARD: Mr. Alexander, you would agree that it is desirable for you and us to do everything possible to overcome that fear?

Mr. ALEXANDER: Exactly, and restore confidence in the public mind.

Senator LEONARD: When inflation is not going to go on and currency will have stability and long-term bonds are worth buying?

Mr. ALEXANDER: Absolutely, but we may have to do it the way the British Government has done it. In other words, that Government a year or so ago decided they would cut down their expenditures wherever they could and do everything possible to get the support of labour to not ask further increases, and at the same time the Government raised the discount rate so that the money stayed in the country and went to work for the country. I would say that as a result of this policy Britain is stronger today that it has been for years, but they had the confidence of the public and labour. It gave them that support that was so necessary, and they stopped this spiral of inflation. The year before last the cost of living index in Britain was 109.6, and this year it is 109.5. It shows they have effectively stopped their spiral.

Senator CRERAR: Would that be permanent?

Senator ALEXANDER: I would say if they can show the same determination to keep their costs down and their labour leaders are able to contain their members as they have been, this trend will carry on.

Senator CRERAR: Have you any theory on what effect this principle of managing currencies has on this?

Mr. COX: I believe that a properly managed currency will be of considerable advantage to rebuilding and maintaining confidence in the value of dollars.

Senator CRERAR: Managing currencies? How would you justify that?

Mr. COX: Well, I think you would have to point to what has happened in these European countries. It has been management.

Senator CRERAR: Do you think a political factor comes in there? I am speaking of all Governments.

Mr. COX: I suppose pressure groups could arise that would object to the cost of money, and there would be those who would claim a new depression was being created, or the basis for a new recession was being created, by what they considered to be an inadequate supply of money.

Senator CRERAR: Involved in that would be determination to resist pressure groups?

Mr. COX: Very much so.

Senator CRERAR: From your observation of the political scene how great is your faith in that?

Mr. COX: I don't know that I am qualified to answer that.

The CHAIRMAN: Honourable senators, I want to thank the delegation from the Investment Dealers' Association of Canada for presenting their brief here this morning. I would also like to remind honourable senators that Mr. Claude Jodoin will be at our meeting this afternoon.

The committee resumed at 2.30 p.m.

The CHAIRMAN: Honourable senators, I will now call this meeting to order as we have a quorum. The International Railway Brotherhood will make their presentation first. Mr. H. E. Campbell, who is the secretary, will introduce the witness and his associates.

Mr. H. E. CAMPBELL (*Secretary, International Railway Brotherhood*): Thank you, Mr. Chairman. Mr. Chairman and members of the Senate, the brief being

presented by Mr. Weldon will be on behalf of the International Railway Brotherhoods and the General Conference Committee which takes in all railway unions in Canada. I would like at this time, with your permission, to introduce Mr. Frank Hall, the Chairman of the National Legislative Committee; Mr. Balch, Canadian Legislative Representative; Mr. Weldon, who will be reading the brief; Mr. Eighteen, who represents the C.B.R.T. and G.W.; Mr. George Schollie, Vice-President of the International Association of Machinists; Mr. John Clark, of the Tinsmiths and Scheet Metal Workers; Mr. Roger Melancon, of the Brotherhood of Railway Carmen of America; and Mr. George Pawson, Secretary of the General Conference Committee.

The CHAIRMAN: I will now call on Mr. Weldon to present the brief.

Mr. JOHN WELDON (*Economic Adviser to the Railway Unions*): Thank you, Mr. Chairman. There are not many statistics in this brief, but the few that there are, are in the appendices. I wonder if I might begin by directing your attention to the appendices, because there are several references to them in the brief.

Appendix 3, which is on the very last page of the brief gives us the supporting data for our brief. You will notice that in that appendix are provided the statistics of earnings for the railway employees as represented, for the sake of convenience, by the C.P.R. figures for the period from 1939 to 1958. Figures are given both on an annual basis and on an hourly basis because a significant difference is introduced by the advent of the 40-hour week in 1951. Similar data of a roughly comparable kind is given for manufacturing.

One technical point that causes a little difficulty is that the average hourly earnings for manufacturing are not available before 1945, and this affects some of the commentary in the text.

The other tabulations in Appendix 1 and Appendix 2 are all derived from this data. In Appendix 1 we give various tabulations on a yearly basis showing the history of earnings in the railways and in the manufacturing industries referred to 1939 as the base. For example, in the railways the yearly earnings of the C.P.R. employee in 1958 were 240 per cent of the earnings he had in 1939. In manufacturing the figure is 318 per cent. In the next column you will see the cost of living index, also related to the 1939 base, and in the following columns the adjustment of the first two columns with the effects of that increase in the cost of living. All of these columns, therefore, are the original data translated into index number form.

There is one line added. You may notice below the line for 1958 the annual rates of increase are set out. These are annual rates for each of the columns above. For example, the rate of increase of the nominal earnings in the C.P.R. column is 4¾ per cent per year from 1939. In manufacturing it is 6¼ per cent. The cost of living index increases at 3¾ per cent and so on.

Appendix 2 is the same kind of thing but is presented on an hourly basis, principally because of changes in the hours of work of railway employment.

Senator REID: What is the meaning or definition of "real earnings"?

Mr. WELDON: The nominal earnings adjusted or corrected for the changes in the price index.

Senator LEONARD: Constant dollars.

Mr. WELDON: "Constant dollars" would be another way of putting it. If I may, gentlemen, I will turn now to the beginning of the brief and read it systematically.

We very much welcome the invitation that has been given the Railway Brotherhoods to appear before this Committee, and hope that our views will be of some help in the important and difficult enquiry the Committee has under-

taken. A comprehensive study of Canadian inflation should produce findings of considerable interest to all sections of the community, and not least to railway employees and their families.

It would be pointless for us to speak to any large number of themes in a topic as wide as "inflation". Instead we shall offer our opinion on various general aspects of the problem, and then turn to the specific influence of railway wages and the standards by which they are determined upon the overall level of prices. It is often supposed, probably because by their size and duration, railway negotiations are always in the public eye, but in any case without looking to the facts, that the Railway Brotherhoods have year by year successfully extorted extravagant wage demands from the rest of the economy; and from this mistaken supposition it is concluded that railway wages have regularly had a large and harmful effect on prices. The truth is that over any period long enough to show a trend railway wages have increased less rapidly than other wages have, and that the real earnings of railway employees have increased very slowly indeed. From 1945 to 1958, for example the real earnings of railway employees increased on an annual basis by little more than one-half a percentage point a year, and in the longer period from 1939 to 1958, by a cumulative rate of about one percentage point; and while real earnings on an hourly basis did better than this because of the "non-recurring" introduction of the 40 hour week in 1951—the rate from 1945 to 1958 was about 2¼ percentage points, and from 1939 to 1958 about 1¾ percentage points,—these rates all represent a very modest improvement in living standards for what has been easily the most prosperous period in Canadian history. For a good many years now the real problem in railway wage negotiations has been simply to regain some sort of partity with working conditions in outside industry, and to prevent the railway worker from having to subsidize the effects of public policy upon railway earnings: far from being a focus of inflationary pressure, railway wages have steadily fallen behind events in the rest of the economy. But the myth that railway wages have led the economy rather than followed it has little the less influence for being a myth, and is of obvious significance in an investigation of inflation; and so we shall come back to a more systematic account of the wage issue a little later on. In the meantime we shall set out our views on the wider problem of inflation in the economy as a whole.

If the general level of prices (as represented, say, by a cost of living index) could be determined at will, and without undesirable side effects of any kind, the choice of reasonable people would probably rest between a long run stability of the index at some fixed level, and a long run trend showing a slight but continuing rate of increase. On balance, in terms of the mobility it encourages, a mild buoyancy in prices perhaps has the advantage over a more rigid pattern, with what bias there is in policy being directed to inflation rather than to deflation. But this is not a point we particularly want to press: we are content to agree that the sensible goals of price policy, other things being equal, fall in the range between complete stability of some basic index and a very restrained trend to higher prices; and we are also ready to agree that both inflation of a more rapid kind and deflation of any kind are undesirable, and become more and more undesirable as the rate at which they occur increases. To put this concretely, we have no quarrel with and indeed give our support to so-called "tight money" policies and similar measures when they are used in a period of inflationary pressure and full employment to prevent excess demand from passing into higher prices. We might well wish, for example, that the "tight money" policies of most of 1956 and 1957 had been a good deal more selective than they actually were, and even that they had been introduced at an earlier date and pressed with greater rigour. But

these are technical difficulties for which the experience of 1956 and 1957 will no doubt produce improved solutions: given such circumstances again, we in no way dispute the value a vigorous monetary policy may have, the more so (to repeat) if the incidence and timing of the policy can be improved from their operation in the last period of full employment.

But this does bring us to a point to which we attach a great deal of importance. We agree that a stable or nearly stable price level is a reasonable goal of policy, and we agree that monetary and fiscal measures are quite properly invoked to achieve that goal. But we must add our strong conviction that it would be a serious matter indeed if a sensible concern for price stability were to obscure the much more important issues of the level of employment and the real output of the economy. We do not want to minimize the difficulties that inflation may bring; but we think it would magnify those difficulties out of all proportion to their real significance if they were given any parity of status with the burdens and waste of unemployment. We know that for our own membership, and we believe that for the community as a whole, there was no comparison between the problems imposed by inflation in 1956 and 1957 and the widespread hardship and insecurity imposed by unemployment in 1958 and 1959. By all means let anti-inflationary goals be pursued, but let the clearest priority be reserved for the goal of a fully employed economy, and for the use of systematic measures not only to deal with unemployment of a cyclical kind but with seasonal and technological unemployment as well.

It is true, of course, that inflation at the very rapid rate at times reached in post-war Europe might easily have dislocative and speculative effects that would require remedy before progress of any kind could be made; but even under such extreme conditions, basically different in origin from anything experienced in North America, there would be no real advance in substituting unemployment for inflation, but only in measures that would maintain output while holding prices in check. And under North American conditions, with the quite different magnitudes in which inflation has occurred here, there seems no reason to regard the price changes of recent years—at least since the Korean inflation—as of more than secondary importance to the state of employment they have accompanied. It is worth noting that in Canada the entire cycle of prices from the recession in 1954 through the investment boom of 1956 and 1957, the further recession of 1958, and the period of recovery that seems now well underway, has been compressed into a range of about 8 or 9 percent (that is, from a Consumers' Price Index reading of about 116 to one of about 126); and that even in the lushest days of the expansion, with private investment rising from about $4½ billions in 1954 to about $7½ billions in both 1956 and 1957, with inherently inflationary defense expenditures running to about $1¾ billions, even in those circumstances the rate of inflation came to no more than some 3 per cent a year. If to maintain full employment does at times press upwards on the price level, it is hard to see any reason why in Canada the result need normally be more damaging than it was in the exceptionally buoyant days of the recent investment boom; and in that period, although real difficulties existed, surely nothing intolerable or even exceptionally onerous was experienced.

No doubt it would have been better if the 8 or 9 per cent range of prices in the last five years could have been compressed still further, and if the inflationary rate of 3 per cent eventually produced by rising investment could have been reduced or even suppressed: we hope that if the circumstances of 1956 and 1957 are repeated there will be a still more effective response by the monetary and fiscal authorities, a response that may better check excessive demand at the height of the boom and that may succeed in transferring some part of that demand to later and less buoyant periods.

Our position—and we repeat this because here especially we want to be sure that we are not misunderstood—is not to defend supposed virtues in inflation or to advise against the use of inflationary controls. On the contrary, we are quite ready to endorse both the goals and the methods of a well considered anti-inflationary programme. But we do advocate a proper system of priorities, in which the dominating importance of employment is clear, and suggest that it may be at least as harmful to exaggerate the threat of inflation in this country as to underestimate or ignore it.

Some of the fears of inflation that have been expressed in recent months do indeed seem to have been exaggerated. It hardly seems likely, for example, that we can price ourselves out of world markets on the basis of inflation restricted to anything like the levels of 1954-1959. To begin with, the absolute rate of inflation has not been very large, and in many cases must have been a quite secondary influence by comparison with the special factors attached to particular commodities, for example, supply conditions in pulp and paper and aluminum or American selling practices in respect of wheat. But in any case what is relevant in this matter of pricing ourselves out of markets is not the absolute rate of inflation but the differential between inflation here and inflation abroad, and that differential (if measured by indexes for the United States and the United Kingdom) seems to have been negligible or even somewhat in our favour. And even if inflation here had been larger than it was, and even if there had been a pronounced and unfavourable differential between prices here and prices abroad, there would still have been the cushioning effect of Canada's floating exchange rate to limit these forces: the natural result would have been a Canadian dollar somewhat closer to par (or perhaps even below par) to compensate in part at least for higher domestic prices. With these facts in mind, while it can be agreed that inflation of itself must make entry to foreign markets more difficult, it is difficult to find evidence that a "pricing out of the market" effect with its origin in inflation has been a serious problem for this country or is likely to become one.

Or as one further example of an area where the effect of inflation, though certainly a legitimate cause for concern, are easily exaggerated from their true proportions, there is the impact of rising prices upon savings. D.B.S. Reference Paper No. 80 on the "Income, Liquid Assets, and Indebtedness of Non-Farm Families" gives information to place the problem in at least rough perspective. Using the D.B.S. unit of "families and unattached individuals" we find, for example, that in March of 1956 for 70 per cent of such households the combined holding of bank deposits, savings bonds, ordinary bonds and mortgages, and personal loans, the combined holding of these "money" assets came to less than $1,000, and that for 50% of such households the combined holding was less than $263. Inflation on the scale experienced in the peak period of 1956 and 1957 would have eroded, say, $30 a year from the larger figure and $7 or so from the smaller, a computation that sets aside receipts from interest payments. While these are not negligible losses, and must have been uneven in their incidence, it is clear enough that the households concerned must have been subject to a good many other influences of far more importance to their economic fortunes. And if regard is had to their higher incomes, much the same thing must have been true even for the 30% of households with the largest holdings of these "monetary" savings. To find a full total of "monetary" savings, of "savings" subject to inflation, insurance and pension funds of various kinds would have to be added to the totals already given. I do not have any Canadian figures at hand, but if American records are any guide, it would appear (see, for example, Goldsmith on "Saving", Vol. I, p. 218) that such additions would fall short of doubling the sums so far counted. In other words, from $30 and $7.00 you may go up to $60 and $14 but not beyond that. And,

of course, whatever the total may be, against it must be set the monetary debts of households, equally subject to inflation with the monetary assets, and at least on the average an important offsetting item—the Reference Paper, for example, gives a figure of $177 for the "median" level of debt. And further, there is the interest factor to be taken into account. A complete and objective study of these questions would be a valuable contribution—perhaps it may form part of this Committee's programme; but we judge that it would help confirm the view that inflation in the pattern of the last several years has had no very damaging effect upon savings, and is not likely to have if that pattern is projected into the future.

We would not want to minimize in any way, however, a related aspect of these questions, the general insufficiency of pension and similar payments, and the burden this insufficiency often places upon those whose economic strength is least. This indeed is an urgent problem, and where it falls within the Committee's present terms of reference we hope it will be given the closest attention. We have in mind not only the immediate issues, the level that pension payments should have, the degree to which inflation has been a factor in their insufficiency, but the need for studies of the distribution of pensioners' incomes, of the arrangements surrounding the investment of pension funds and life insurance savings, of the vesting or lack of it in industrial pensions, and similar issues for which a good deal of basic research remains to be done.

What of the causes of the inflationary pressures of the past few years? In economic discussion there seems much to be said for depending on the simplest explanation that will account for the facts, calling upon more complicated concepts only when the facts make complications essential. Although there are certainly a great many hard questions to be answered about how economic events have developed since 1954, there does not seem to be anything very mysterious about what the "originating" causes of inflation were. We need only trace the components of business investment in the National Accounts: non-residential construction, at a level of $1.67 billions in 1954, rose to $1.85 billions in 1955, and then rose spectacularly to $2.59 billions in 1956 and to $3.23 billions in 1957; investment in machinery and equipment, with a value of $1.88 billions in 1954, rose to $1.98 billions in 1955, and then expanded in step with construction to a value of $2.73 billions in 1957; and business inventories, which actually declined by $40 millions in 1954, were augmented by $102 millions in 1955, by $545 millions in 1956 and by a further $243 millions in 1957. If we look back to the period following the Korean inflation, and consider the many months of price stability which then continued until about May of 1956: if we look back to that period and ask what change there was in the economic environment that can be related to the renewed inflation of 1956, the great surge in investment intentions shows itself as an obvious and surely sufficient answer. Large businesses administering prices can hardly have been responsible for the change, for whatever their powers were to administer prices in 1956 and 1957, much the same powers must have existed in the quiescent months from 1952 to 1955. Nor can the trade union movement have been responsible, for whatever the organizational strength of trade unions was in 1956 and 1957, it had changed very little from the interval of price stability in the years before. Some substantial change has to be found to explain the new trend in prices, and it is only in investment decisions that such a change appears.

Perhaps two references from the Bank of Canada's "reports" can be added as emphasis. In the 1956 Report (p. 4) it is stated quite flatly that: "In Canada, the chief cause of inflationary pressures was a great increase in capital expenditures, a boom in investment, particularly business investment in

resource development and in fixed assets, construction, and expansion of equipment." In the 1957 Report (p. 6) the emphasis is extended: "Investment outlays on projects associated with resource development rose by two-thirds in 1956 and continued to rise well into 1957. The stimulating effects of this activity were widespread, and much of the investment elsewhere in the economy can be attributed directly or indirectly to the rapid rate of expansion in the export-based industries. Resource development was in fact the basic reason for the intensity of the 1955-57 boom in Canada—and for the degree of inflation experienced."

It seems equally clear that the other bursts of post-war inflation have had their source in easily visible events, and that where the effects of inflation have been large the initiating "causes" have been large also. The price increases from the summer of 1950 to the fall of 1951 were surely the immediate result of the Korean war. To quote the Bank's Report for 1954 (p. 4): "In the spring of 1950 economic conditions in North America were buoyant. The post-war fight against inflation appeared to have been won. ... This was the situation when the outbreak of hostilities in Korea brought major new complications to the economic scene. Rapid expansion of the defense programmes of the United States and Canada was accompanied by a wave of inventory accumulation and prices rose sharply, particularly in the case of primary commodities." Or going back from the Korean inflation to the two years or so of rapid inflation that began in 1946 and extended to the fall of 1948, there is not much doubt that the one-third increase in prices that took place then was the natural aftermath of the war, the result of the disappearance of price controls, of the existence of "a large pent-up demand for goods backed by a high level of liquid assets"—the quoted language is also from the 1954 Report (p. 3). Again, the course of events during the inflation raises many questions—should monetary policy, for example, have been more stringent than it was?—but there seems no room for argument as to what the underlying causes of inflation were.

Labour union members have been affected by the various periods of inflation along with the rest of the community, but the union movement has not been responsible for bringing these periods into existence nor has it benefitted by them. The fact is that even in so prosperous a segment of the economy as manufacturing the gains that labour has made have been if anything less rather than more than the gains in national productivity, and so to some degree have tended to absorb rather than transmit inflationary pressures, let alone initiate or augment them. A rough but significant test of this assertion is provided by the tables of "real earnings" in the appendix: from 1939 to 1958 real earnings per year in manufacturing increased by an annual rate of about 2½ per cent, while from 1945 to 1958 (1945 is the first year for which hourly figures are available) real earnings per hour increased by a rate of about 2¾ per cent. As a reference against which these figures can be compared there is the long run rate of increase for "output per man-hour in the private sector" given by Brecher and Reisman in their Gordon Commission study "Canada-United States Economic Relations" (p. 235): from 1926 to 1955 Brecher and Reisman cite a total increase of 136% or a cumulative increase of 3% a year.

I think you often find the figure of 3 per cent cited as the average rate of increase of productivity in this country.

These aggregative comparisons, of course, cannot be pressed too far, but it would appear hard to argue that there has been any inflationary impetus from wages when even in the manufacturing industries hourly real earnings have been increasing at less than this 3% rate.

There is one basic point that is sometimes overlooked in making these comparisons. Over any period of time, it is not only normal but necessary for wage rates to increase more than prices do, even in a time of stable or nearly

stable prices. If this were not so, and wage rates were kept in some constant relation to prices, real earnings would never increase, and wage earners would receive no share in the steadily improving productivity of the economy; nor for that matter could the output from improving productivity be distributed. It is inevitable, then, that in a period of rising prices, wage settlements of an equitable kind will show increases both to balance the higher prices and to distribute ordinary productivity gains. That is to say, when there is inflation wage increases will normally combine a cost of living factor and a productivity factor, and so must be larger than either in the natural course of events. In such circumstances wage increases larger than productivity increases are simply a sympton of inflation rather than a cause, and can readily disguise situations in which wage earners fail to gain a reasonable improvement in their standard of living or actually see their standard of living fall. The call that is sometimes made for labour to be restricted during inflationary periods to wage increases at most equal to changes in producitivity in effect asks that labour absorb whatever inflation is generated elsewhere in the economy: the result might well reduce inflationary pressures but it would do so in a completely discriminatory way. To go back to the table of "real earnings": while it is true that the wage increases of post-war years have often been larger than productivity changes, smaller increases would have widened the gap between "real earnings" and productivity, and would have left the wage-earner to sacrifice part or all of his share of improved living standards to offset inflation for which war and fluctuating investment were responsible.

With this same table of "real earnings" as a link, we might now turn back to the question with which we began, the influence or lack of it of railway wages upon inflation. The main point that comes from the table has already been made, that is, that the rate of increase in the real earnings of railway employees has been very low, whether measured from 1939 or 1945. (Incidentally, to add in the rate of growth of "fringe benefits" could not change the overall rate in any significant degree, although the exact difference would be very difficult to compute.) The only major change in the real earnings of the railway employees has been in leisure time, chiefly his winning of the 40-hour week despite the great bargaining power he is supposed to have and use, his real earnings in other areas have barely crept ahead in the years since the end of the war. I think we can see that from this appendix. You will see that the real earnings of the railway employee have gone up very little, indeed. From 1939 they have increased by about a half per cent a year. On an hourly basis they have gone up a good deal more, but that is due essentially to the 40-hour week. We have been maintaining the standard of living, but doing it with a shorter work week. What has been said about inflation and the wage rates in manufacturing evidently applies with still greater force here: the wage increases gained by railway employees have not been the initiating cause of inflation nor have they augmented basic inflationary pressures. On the contrary, they have so little improved real earnings that they must have substantially absorbed rather than transmitted those pressures. The railway employee has fallen behind, not pressed ahead.

Senator HORNER: Right there, like a great many other people he has leisure time in which to earn a salary at some other occupation.

Mr. WELDON: This is on an hourly basis, which would take that factor out of the discussion. On an hourly basis he has not kept up with the national productivity.

Senator HORNER: Well, I do not agree with you so far as that goes.

Mr. WELDON: As further documentation the recent history of railway wage negotiations is worth looking at, at least briefly, since it shows all these things

in a very direct way. Attention can be focussed on the settlements made by the non-operating employees. For several years past these agreements, which in themselves apply to about two-thirds of the railways' employees, have largely governed the pattern of wage increases (and of some fringe benefit changes) for railway employees in all categories. Improvements given the unorganized employee have followed almost exactly the gains won by the organized employees; and within the organized groups, the wage settlements made by the running trades have very closely followed earlier settlements by the non-operating unions.

For a number of years after the first world war railway employees enjoyed working conditions more or less equal to those obtaining for railway workers in the United States. During the depression and then under war-time controls, that parity was gradually whittled away; and when in 1944 the railway employees went before the National War Labour Board, their claims for restoration of parity with conditions in the States was rejected, and the War Labour Board instead based its recommendations on a survey of wage rates in Canada. The principles on which the comparison was based deserve attention, for they have been basic in railway wage determination ever since. As the War Labour Board Reported (Reasons for Decision, July, 1944):

> The Board caused an examination and study to be made of wage rates received immediately prior to the war by employees in a large and representative group of industrial and other establishments in all parts of Canada. In making the examination and study we were careful that the establishments under review were not only representative of all parts of Canada but also of the various types of industry in the country, and care was also taken to make sure that the establishments examined and studied had in their employ a wide enough range of classifications to embrace classifications reasonably similar or comparable to as large a number as possible of Railway classifications. Similar information was obtained with respect to wage rates received by employees in these same establishments at the date of this application and comparisons were made with wage rates received by Railway employees at the same dates.

For the non-operating employees the results of these comparisons produced an average level of earnings that happened to be at almost exactly the same level as the average hourly earnings of employees in the durable goods industries: we say "happened to be" because the survey was not directed to the "durable goods" industries as such, but to an immediate comparison of wages within and without the railway industry. But in any event for the next several years the outcome of wage negotiations was to continue the relationship with outside industry that had been estabilshed by the War Labour Board, a relationship in which the effective if still implicit index was average hourly earnings in the durable goods industries. That standard of comparison for wages—that is, for durable goods—became an explicit reference for the first time in 1950 when the Conciliation Board headed by Mr. Justice J. O. Wilson made mention of it; and later in the same year, after the dispute over the 40 hour week had come to arbitration, *the railways* urged it as a proper comparison upon the arbiter, Mr. Justice R. L. Kellock. Mr. Justice Kellock accepted their view on this matter and elaborated it at some length.

> In making a comparison between railway wage rates and rates paid in outside industry, there are certain facts which should be kept in mind. The railway wage structure has been developed by collective bargaining over a long period, and recognized relationships or differentials of the character referred to by the employees above have been established between the various occupations.

> For the railways it is accordingly contended that any comparison of railway rates with outside rates, to be fair, must proceed on the basis of a comparison between groups of rates rather than merely as between particular rates for individual occupations, as it may be that conditions in outside industry have caused particular rates to be established on a higher level than in railway service. A second consideration is that for a majority of occupations within the railway, rates of pay are uniform across the country, and where differences exist as between different areas, these differences are between eastern and western Canada rather than between the larger and the smaller localities...
>
> All of this merely emphasized the obvious fact that in comparing railway wage rates with wage rates outside, the comparison should be with those sections of industry in which the nature and variety of employment, the proportions of male and female employees, and the territorial distribution are really comparable. The railway employees here in question are located all across the country in areas where industry is concentrated and where wages generally are high, as well as in less concentrated or agricultural areas where rates are lower, the railway occupations cover a wide range from that of the skilled craftsman to the unskilled labourer, and from the dispatcher to the office boy, the wage structure having been built up by agreement to give effect rather to differences in responsibility and job content than primarily to geographical distribution...
>
> Without going through the list in detail, a fair comparison on the basis of the factors already mentioned, is, in my opinion, furnished as nearly as may be, by the group of industries falling under the head of 'durable goods manufacturing'. That section of the industry employs probably a higher proportion of skilled workers than is the case with manufacturing generally, and the proportion of female employees is said, on the material before me, to be about the same as in the case of non-operating railway employees. Generally speaking, women in industry earn less than men, and the proportion of female employees is accordingly an important item in any proper comparison. In 1948 the durable goods industry was used as a basis of comparison for similar purposes in the United States by a presidential board which had to consider problems akin to those arising here.

In the next round of negotiations, in 1952, the railways continued and expanded their defense of the "durable goods" standard, and the employees made a last effort to regain the pre-war standard, or if that was impossible, to obtain a compromise, The Board before whom the dispute came, headed by Mr. Justice Kellock, continued the precedents and found in favour of the railways. Mr. Justice Kellock was joined by the railways' nominee, Mr. Paul S. Smith, in the following observation:

> The proposed comparison is between non-operating railway workers and the durable goods industry as a whole. In our opinion, such a comparison is a valid one. The durable goods, industry, like the non-operating railway industry, is composed of skilled, semi-skilled and unskilled workers. White it is undoubtedly true that in some of the industries making up the durable goods group the proportions of skilled, semi-skilled and unskilled workers are different from the proportions in the case of the non-operating railway group, nevertheless, when the comparison is with the durable goods group as a whole, the proportions on balance do not appear to be greatly different. For this reason the inclusion of the industries objected to as above would appear valid. Furthermore, wood products and non-metallic minerals—more especially

> wood products—have the added advantage of wide geographic distribution not shared to the same extent by the other industries in the durable goods group. No other group of workers in the Canadian economy furnishes, in the opinion of the Board, a comparison which answers all the requirements as well as the durable goods industry.

Now the point is that during all of this time 1944 to 1952, the non-operating employee were being paid wages that on the average matched almost to the decimal point wages paid in outside industry, not only in relative terms but in absolute terms. Wage rates matched, that is to say, not in terms of any assessment made by the employees themselves these are settlements that they resisted—but in terms of standards advocated by the railways and endorsed by third parties. (The employees believe now as they believed then that the "matching" was conservative, but in any case it was a "matching" that gained the support of neutrals.) The overall parity with durable goods is imbedded in the statistical record, and is given its credentials as a parity with outside wages by the wage survey of the National War Labour Board at the beginning of the period and by the successive findings of Mr. Justice Kellock at the end. Railway wages and increases in railway wages, then, could not have initiated inflation, but during the intervals of rising prices were a passive factor (along with many other elements of the economy) in a process that had originated elsewhere: wage rates within the industry kept pace, and no more, with wage rates outside, and this by standards for which third parties were responsible.

Since 1952 the position is even clearer. In the lengthy dispute on fringe benefits that begun in 1953, and that ultimately went to arbitration before Mr. Justice G. Sloan, wages were frozen at 1952 levels for an extra twenty-five months over an original currency of fifteen. The result was that railway wages fell considerably behind the "durable goods" index. Parity has never been regained, and there is now a considerable and growing differential: the non-operating employees have been 10 to 15 cents an hour behind for a great many months. When the 1955-1956 wage negotiations opened, the non-operating employees found that the railways no longer supported the "durable goods" standard, and has a new standard to offer. The Board of Conciliation that dealt with the dispute (and of which Mr. Eric Taylor was Chairman) rejected the new reference, in a majority report, and reaffirmed the value of the "durable goods" comparison; but it decided that the gap between "durables" and the wages of the non-operating employees had grown too large to be filled by a single adjustment, and made recommendations of a "step by step" kind that in the event fell well short of restoring parity. It ended up, I think, that it fell 12 to 13 cents behind. In the next and most recent round of negotiations, that of 1957-1958, the railways changed standards once again, not to go back to "durables" that the Taylor Board proposed, but to introduce a new and very elaborate wage survey, on the pattern of the study made by the National War Labour Board, but with the difference that it was conducted by the railways' own officers. (There was the critical difference, too, that the railways' survey found outside wages for their employees to be lower than the "durables" average.) The railway survey found durables high. Conciliation produced a somewhat mixed result. The Board (chaired by Mr. Justice H. F. Thomson) discussed the "durable goods" standard at length, and the railways' new standard, and reported—again in a majority report—that it had "earnestly endeavoured to give due consideration and proper weight, not only to the Durable Goods Standard, but also to each of the various factors, differences and other matters hereinbefore mentioned or reviewed." There was something like 25 pages of these "factors". These qualifications of the durable goods standard produced wage recommendations that fell well short of parity, and they continued the deterioration that had begun after the 1952 settlement.

On a "lesser of two evils" principle the employees accepted the wage recommendations of the "Thompson" Report as they had accepted the recommendation of the "Taylor" Report two years before, and eventually signed agreements with the railways on that basis. (In both years, it is worth keeping in mind, it was not the employees but the railways who delayed a settlement. Indeed, the whole episode of last winter, in which the railway made their acceptance of settlement conditional upon the actions of the Board of Transport Commissioners, followed long after the employees had agreed not to the proposals they themselves made but to the recommendations put forward by the Thomson Conciliation Board. The employees had accepted the recommendation made by neutrals.

The record of these last years really speaks for itself. The wage increases that the non-operating employees gained were based upon outside wage rates; they represented a deterioration in standard, not an improvement; and they were formulated, not by the employees themselves, but by third parties. Inflation was not initiated in these settlements, and if an attempt had been made to limit inflation by restricting the wage increases that the settlements produced, the effect would simply have been to use the railway worker's standard of living as a special anti-inflationary instrument of public policy.

There are, of course, problems affecting the railway industry and the public interest that are in the most urgent need of solution, but we are very doubtful that any relation between the industry and inflation ranks as one of these. There are major technological problems, the impact of new forms of transportation, the difficulties produced by automation and other innovations; there is the problem of freight rate structure, more and more unbalanced as the years pass; there is the proper use of the railways as an instrument of public policy—we accept that the railways must often operate in an "uneconomic" way in the general interest, but we reject that much operations should be subsidized by the employees, or by any single group in the economy. (We do not object to the Crows-Nest Pass rates as such, for example—they may be well justified in terms of public policy—but we do believe that their cost should be fairly distributed, and not placed upon the railway employee in the form of substandard working conditions.)

These are all difficult issues. But on wage determination and inflation, while there will undoubtedly be sharp differences between the railways and their employees as to what standards of comparison should apply, the record suggests that the outcome will have no initiating role, no causal force, in any inflation that may develop. Standards of comparison must be used, and there is only a limited range in which reasonable standards can be found.

Mr. David Lewis put the main facts of railway wage determination very well in some comments he added to the majority report of the "Thomson" Board. It might be useful to close by giving an extract or two from those comments.

> It is apparently agreed between the parties that a standard of comparison is extremely important to their dispute. Both the Unions and the Railways emphasized the importance of such a standard and directed their evidence and arguments mainly to that point."
>
> The issue between the parties was this year, as it has been on previous occasions, the question of what constitutes "a reasonable standard of comparison". In all wage disputes standards of comparison are of importance; in the case of the Railways, they are of even greater importance."
>
> There are two factors relevant to a consideration of railway wage disputes which give this added importance to the value of a standard of comparison. The first is that, even more than in all other industries, peaceful labour relations on the Railways are an urgent necessity to

the entire country. For this reason it has always been doubtful whether governments would be prepared to permit a serious interruption of railway services. This is, no doubt, the reason why arbitration was imposed by the then government after some days of strike in 1950. It is obvious that, although the right to strike has not been legally withdrawn from railway unions, it is difficult for the Unions to exercise it both because of their responsibility to the community and because of likely intervention by governments. It is evident to me that in such a situation an appropriate yardstick which can guide the parties themselves as well as boards of conciliation to a fair and reasonable settlement of a wage dispute on the Railways is of paramount, indeed, overwhelming importance.

The second reason why this is so derives from the fact, as was fully disclosed in the evidence before this Board as well as before previous boards, that railway income is subject to regulation and statutory control to an extent not experienced by the rest of Canadian industry. This regulation and statutory control results in the Railways being required to perform uneconomical services for the benefit of the Canadian economy and the Canadian people as a whole. Inevitably, their net earnings are adversely affected. To put it briefly and in a rather oversimplified way, public policy is largely responsible for the alleged low level of railway earnings about which the Railways complained to this Board as they have done to other tribunals. Because public policy plays this role in the railway situation, it is again important to have an objective standard of comparison for railway wages. Only on this basis is it possible to arrive at a level of wages for railway non-operating employees which would be fair both to them and to the people of Canada. It is my firm conviction that the only level of wages which is fair and reasonable is one which results neither in the employees of the Railways subsidizing the people of Canada by a disparity between their earnings and those of comparable groups of Canadian workers, nor in the people of Canada subsidizing railway employees in permitting them to earn a wage above that enjoyed by comparable groups of Canadian workers. This desirable result can be achieved only, in my opinion, if there is an accepted objective standard of comparison by which the parties and boards are guided in the resolution of railways disputes.

APPENDIX—1

INFLATION AND REAL EARNINGS

CHANGES IN THE STANDARD OF LIVING OF RAILWAY WORKERS (C.P.R.) AND WORKERS IN MANUFACTURING

(NOTE: Index numbers are given on this page and the next and supporting date on the page that follows)

YEARLY BASIS

(1939 = 100)

Year	Nominal Earnings		Inflation	Real Earnings	
	C.P.R.	MFG.	Index	C.P.R.	MFG.
	(Per Year)		(Cost of Living)	(Per Year)	
1939	100.0	100.0	100.0	100.0	100.0
1942	116.8	127.2	115.3	101.3	110.3
1945	132.9	142.4	118.7	112.0	120.0
1950	173.4	202.8	162.8	106.5	124.6
1951	191.9	224.9	179.9	106.7	125.0
1952	199.7	246.2	184.3	108.4	133.6
1953	209.9	258.9	182.7	114.9	141.7
1954	212.4	267.4	183.9	115.5	145.4
1955	216.8	277.9	184.2	117.7	150.9
1956	229.7	291.7	186.9	122.9	156.1
1957	230.1	305.7	192.9	119.3	158.5
1958	240.2	318.9	198.0	121.3	161.1
Annual Rates of Increase (Cumulative Basis) to nearest ¼%					
	4¾%	6¼%	3¾%	1%	2½%

NOTES: The index numbers of real earnings for 1958 become 121.3 (C.P.R.) and 161.1 (Mfg.) if 1945 is used as a reference instead of 1939. The rates of increase from 1945 to 1958 for these two numbers are then a little more than ½% and 2¼% respectively.

With the exception of the cost of living indices, which are computed from standard sources, all values above are computed from the supporting data on Appendix—3.

APPENDIX—2

INFLATION AND REAL EARNINGS

CHANGES IN THE STANDARD OF LIVING OF RAILWAY WORKERS (C.P.R.) AND WORKERS IN MANUFACTURING

(NOTE: Index numbers are given on this page and supporting data on the page that follows)

HOURLY BASIS

(1945 = 100)

Year	Nominal Earnings		Inflation	Real Earnings	
	C.P.R.	MFG.	Index	C.P.R.	MFG.
	(Per Hour)		(Cost of Living)	(Per Hour)	
1945	100.0	100.0	100.0	100.0	100.0
1950	137.0	149.3	137.0	99.9	108.8
1951	156.6	168.3	151.6	103.3	111.0
1952	173.1	186.2	155.3	111.5	119.9
1953	186.2	195.7	154.0	120.9	127.1
1954	190.3	202.9	154.9	122.9	131.0
1955	193.0	208.2	155.2	124.4	134.1
1956	202.6	218.3	157.5	128.6	138.6
1957	210.7	230.5	162.5	129.7	141.8
1958	220.3	238.8	166.8	132.1	143.2
Annual Rates of Increase (Cumulative Basis) to nearest ¼%					
	6¼%	7 %	4 %	2¼%	2¾%

NOTES: The index number (1958) for the real earnings of the C.P.R. employee becomes 139.7 if 1939 is used as a base instead of 1945. The correponding rate of growth is 1¾%

With the exception of the cost of living indices, which are computed from standard sources, all values above are computed from the supporting data on Appendix—3.

APPENDIX—3

INFLATION AND REAL EARNINGS

SUPPORTING DATA

Year	RAILWAYS (C.P.R.) Average Earnings Per year	RAILWAYS (C.P.R.) Average Earnings Per hour	MANUFACTURING Average Weekly Wages and Salaries	MANUFACTURING Average Hourly Earnings
	$	$	$	
1939	1,617.67	0.677	22.97	N.A.
1942	1,889.73	0.752	28.99	N.A.
1945	2,149.56	0.848	32.46	69.4
1950	2,805.62	1.162	46.21	103.6
1951	3,104.75	1.328	51.25	116.8
1952	3,230.30	1.468	56.11	129.2
1953	3,395.41	1.579	59.01	135.8
1954	3,436.66	1.614	60.94	140.8
1955	3,507.24	1.637	63.34	144.5
1956	3,715.72	1.718	66.47	151.5
1957	3,722.62	1.787	69.68	160.0
1958	3,886.00	1.868	72.68	165.7

SOURCES AND NOTES:

All data are transcribed or directly computed from D.B.S. and C.P.R. materials except for the 1958 C.P.R. earnings figures. These are estimated from the known increases in the non-operating employees' wage rates. C.P.R. figures, rather than figures for all railways, are used for convenience: there is no reason to believe that the index numbers are affected by this simplification.

The CHAIRMAN: Thank you very much, Mr. Weldon. We will throw the meeting open to a question and answer period.

Senator HAIG: You have talked about a 40-hour week. Let us say a man gets on a train at Winnipeg to travel east. Let us say he is a brakeman. When his 40 hours are up he is through that run.

Mr. WELDON: Excuse me, senator. I cannot answer questions of a technical nature about the running trades. I have not been closely connected with them.

Senator HAIG: Which part are you acquainted with?

Mr. WELDON: The non-operating trades.

Senator HAIG: Then take a section foreman who goes out with a gang to do certain work. As soon as his 40 hours are up he is through, whether those 40 hours are accomplished in four days or five days. When he is finished his time is up. Am I right?

Mr. WELDON: Yes, that is correct.

Senator HAIG: And he does the same work he used to do when he worked 48 hours a week?

Mr. WELDON: I doubt it. He would do somewhat less.

Senator HAIG: Does he not do the same work?

Mr. WELDON: No, sir.

Senator HAIG: How long did it take him to do his 48-hour week? He did it within a week, did he not?

Mr. WELDON: That is right.

Senator HAIG: And he does his 40 hours now within a week?

Mr. WELDON: That is right.

Senator HAIG: Then who does the other eight hours?

Mr. WELDON: At the time of the institution of the 40-hour week it would have meant a somewhat larger working force, more people. More hours would have to be put in by other people.

Senator Haig: Be careful about that. I know a bit about this sort of thing. I lived in a small town and I know something about the work done by the railways in those areas.

Mr. Weldon: I was going to go on to say that as I understand it over the years the working force has absorbed this. Now a smaller number of people actually do the work than when the 40-hour week came in.

Senator Haig: What I am trying to get at is does the worker do as much work as he did before?

Mr. Weldon: The one man?

Senator Haig: Yes.

Mr. Weldon: I would doubt it, sir.

Senator Haig: All right, then, you had to put more help on to do the same amount of work?

Mr. Weldon: Somewhat.

Senator Haig: So that cost you money.

Mr. Weldon: Right.

Senator Haig: And that is not included in the wages you are paying that one man. In other words, the railway to do the section from Alexander to Brandon, which is 16 miles, in the old days required 10 men and today the same job now requires 12 men.

Mr. Weldon: Not quite, senator, because during the time between the introduction of the 40-hour week and the present time—I don't know about particular localities and particular instances and this may not be true in every particular detail—productivity on the whole has gone up very greatly, and the number of men on the whole needed today to do the work has fallen and not risen.

Senator Haig: That is not what is causing productivity, I do not believe. Isn't it the line they are using and the construction of it and the material in it? For instance, the weight of the rails has got something to do with it.

Mr. Weldon: Materials have improved, that is right.

Senator Haig: And that is the big item.

Mr. Weldon: I am not suggesting that productivity has improved in any industry in the main by people working harder. I am not talking about the men.

Senator Haig: I am talking about the men.

Mr. Weldon: I am not suggesting that productivity in any industry has particularly increased because people work harder.

Senator Haig: Nowadays when you have a 40-hour week it costs you more to keep the line clear from Winnipeg to, say, Renfrew. It takes more men to do the job because they don't work so many hours each.

Mr. Weldon: I do not think this is correct, although I could not give specific figures.

Senator Haig: The lines are better now and require less work than they used to.

Mr. Weldon: I would agree that improved techniques and improved materials are a very substantial part of the explanation of improved productivity, but I think this is true in all industry. I am not suggesting people work a great deal harder.

Senator Haig: My charge is that I don't think there is any increase. Take the office workers. I know something about them. I don't find the stenographer doing any more work now than she ever did. I do not think

she does as much. She works 40 hours a week. She used to work about 6 hours more than that. Stenographers certainly do not do as much in the 40 hours as they did in the 54.

Mr. Weldon: I do not dispute this. I have no evidence on the point, but—

Senator Croll: Let us follow that same line of reasoning, witness. What you did say was that the labour force now is smaller than it was at the time we had the 48 hour week.

Mr. Weldon: That is right, senator. Since the introduction of the 40 hour week the whole of that change in time has been absorbed in improved productivity, something which springs from many sources.

Senator Reid: Could I ask this question; on page 11 you deal with fringe benefits, and I have two questions to ask. Do you take into account fringe benefits added to the wages or salaries received? You see, these fringe benefits have not been of any great concern, and I am the one who says it costs up to 40 cents an hour to provide the fringe benefits. Would you tell us what the fringe benefits are worth, because it must cost the company something.

Mr. Weldon: It is a highly contentious matter. What they do cost is very difficult to estimate on the railways. There are two reasons for this. One of the fringe benefits is the pass privilege, and there is a great deal of dispute as to whether the pass privilege should be valued at the cost to the railway or at the value of the ticket to the employee. Depending on how you compute this, it makes a great deal of difference to the result. It is of very little value if you compute it one way, and quite a bit if you compute it the other. The pension is again very difficult to compute because of the problem of evaluating the reserve attached to each employee. It is a highly contentious thing. The railways have suggested figures for pensions running from 10 to 11 cents an hour, as I recall, which presumably represents the upper limit of what you can express for this benefit.

Other fringe benefits include the health and welfare plan at a cost of 2.5 cents an hour. It has gone up a little in the last year or two. With regard to statutory holidays, the railway employee has one less than the average Canadian employee. The average Canadian employee has eight statutory holidays a year, and the railway employee has seven, so he is at a disadvantage there. There are vacations with pay where the railway employee has had his standards based on those in outside industry. He has two weeks after one or three years of service depending on whether he is an hourly or a monthly rated employee. He has three weeks after 15 years, and he now has four weeks after 35 years, but I think there are few people in the railways old enough, and not pensioned off, to benefit from that. There are very few people with that seniority. I think that completes the list of fringe benefits.

Senator Macdonald: Would it be fair to say that at the present time that the wages of railway employees are on a parity, including fringe benefits, with the wages of workers in the durable goods industries?

Mr. Weldon: No, senator, as a statistical fact that is not so. The non-ops are behind by 10 or 11 cents an hour at this moment in wages, and behind by a debatable amount in fringe benefits. The average hourly earnings of the non-operating employees compared to the workers in the durable goods industries shows a differential of 11 cents.

Senator Leonard: Do you agree that the goal of price policy should fall between complete stability of some basic index and the very restrained trend to higher prices—I think is the way you put it? Assuming we are able to set our goal and maintain it at reasonable stability do you think, then, that increased wages should be maintained within the increase of the average productivity—that is, assumed stability of price from now on?

Mr. WELDON: Assuming complete stability of prices, you would face the question of whether the existing wage pattern was to be for all time fixed. I do not think that could be taken as a sort of social axiom, that you had once and for all determined the proper pattern of wages. I do not think, senator, that wage rates could go very far beyond that, as a practical matter, simply because there would be no product to distribute.

Senator LEONARD: And would it not be definitely inflationary if you are starting at this level and your wage increases outrun the productivity.

Mr. WELDON: It would be an inflationary pressure, yes.

Senator LEONARD: And also should there not be some part of the reward for increased productivity go to the capital that produces the machines that cause the increased productivity?

Mr. WELDON: Quite, senator, but if the wages are geared roughly to productivity this also means that the rewards to capital would also be geared in the same way to productivity.

Senator LEONARD: I am just trying to find out whether or not you think any increase in wages should be kept within the total amount of the increase in average productivity.

Mr. WELDON: Yes, I meant to answer that. I do not think in practice rates could be very far beyond that level. I would not like to say that the distribution of income is fixed once and for all.

Senator LEONARD: You are prepared to start at the present level?

Mr. WELDON: And keep productivity—no, I do not think it could be stated that such things can be fixed for all time.

Senator LEONARD: You think there can be still wage increases assuming stability of price?

Mr. WELDON: I do not think labour could accept the matter as being fixed for all time.

Senator LEONARD: It seems to me, also from a practical standpoint, that they pretty well would have to stay within the increase of productivity. However, that may be argument.

Mr. WELDON: Yes, it is debatable.

Senator LEONARD: Do you not think that some part of increased productivity should be passed on to the consumers.

Mr. WELDON: I think it is, senator, because, of course, the consumers in very large part consist of the members of the labour force and their families.

Senator LEONARD: I mean the consumer from the standpoint really of a reduction in prices.

Mr. WELDON: I do not think reduction in prices is a practical measure, senator. If exactly the same results could be accomplished by reductions in price as by these other pieces of machinery, then, perhaps, the thing would be practical. But I do not think reduction in prices is feasible.

Senator LEONARD: Why? You seem to throw that right out as being something not to be considered at all whereas it seems to me that in order to maintain stability of prices you have to allow for the possibility of uncertainty as to prices which would mean from time to time some drop in prices.

Mr. WELDON: Well, when I talk about stability of prices, and all of these things, I am thinking in terms of averages. I certainly would not make the general proposition that every particular price has to be fixed.

Senator LEONARD: I am talking of averages, too.

Mr. **Weldon**: No, I do not think that deflationary policies really are feasible in the modern economy.

Senator **Leonard**: You are probably talking about extreme deflationary measures, or general deflationary trends just as we are talking about general inflationary trends.

Mr. **Weldon**: Even mild deflation, senator. I would doubt that great disaster would flow from mild deflation, but, on the whole, I think it would be a bad thing and much less workable.

Senator **Leonard**: Are you afraid it might be accompanied by unemployment? Is that the problem?

Mr. **Weldon**: I think it would be accompanied by unemployment, and certainly it would be accompanied, or so I think, by tension in industrial relations. I also suspect that it would be accompanied by a certain amount of disappointed expectation on the side of businessmen. If mistakes are made when prices are falling, they are that much more painful.

Senator **Leonard**: We have had times of prosperity and full employment with falling price levels.

Mr. **Weldon**: We have had times of prosperity and full employment—let me cast my mind back.

Senator **Leonard**: Perhaps not in our recent experience, but—

Mr. **Weldon**: I do not think so with government on the scale it is today, senator.

Senator **Croll**: Witness, I am reading from a document which I have borrowed from Senator Leonard which is called *Labour Research*. It is authenticated, and here the author says that in the nine year period in the transportation, storage and communication industry productivity rose 20.98 per cent and real wage rates rose 19.09 per cent. Have you ever seen this document before?

Mr. **Weldon**: No.

Senator **Croll**: Never? That is surprising.

Mr. **Weldon**: I thought you meant the specific issue of *Labour Research*. I am not acquainted with the specific figures. Could you give me them again?

Senator **Croll**: He covers a nine year period and he says productivity rose 20.98 per cent and real wage rates rose 19.09 per cent, and he goes back—for instance, this is worth putting on the record; he says:

> In 1952, productivity rose 3.27 per cent, and real wage rates 12.24. This put the real wage rate index slightly ahead of the productivity index...

You covered that 1952 period.

> ...In 1953, productivity rose 1.27 per cent, and real wage rates, 2.15.
>
> In 1954, productivity rose 5.00 per cent, and real wage rates 2.63. This put the productivity index very slightly ahead of the real wage rate index.
>
> In 1955, productivity rose 2.98 per cent, and real wage rates 1.54.

And then I gave you the summation.

Mr. **Weldon**: And the summation was 20.98 per cent?

Senator **Croll**: 20.98 per cent, and real wage rates 19.09 per cent, and that brings it up to 1955.

Mr. **Weldon**: And this, senator, is transportation and what?

Senator **Croll**: Transportation, storage and communication. I think that would cover your industry.

Mr. WELDON: It would appear to cover our industry and other industries as well. The suggestion would be—I do not know what happened to the other industries, but during that period our own industry showed a falling behind in real wages.

Senator REID: May I ask the honourable senator whether there is any indication given as to what is meant by productivity in transportation? I can understand productivity in lumbering, but—

Senator CROLL: I gather what the witness means is this, that when men started to work 40 hours instead of 48 hours they needed a less number of men to do some work at least, and that is productivity. That is what he said.

Mr. WELDON: That is, following upon the introduction of the 40 hour week.

Senator CROLL: Yes. There are a lot of forces—mechanization, technical advances, automation, and all the rest of it?

Mr. WELDON: Quite. I hope I have not been vague on that. I was not suggesting that productivity springs from labour's virtues alone.

Senator CROLL: No, you made that very clear.

The CHAIRMAN: If there are no other questions I would like to thank you, Mr. Weldon, and your distinguished associates.

Honourable senators, we have with us now Mr. Claude Jodoin, President, Canadian Labour Congress. I will call on Mr. Jodoin to introduce his associates.

Mr. CLAUDE JODOIN, *President, Canadian Labour Congress*: Mr. Chairman and honourable senators, first of all I wish to express to the members of the Senate Committee on Finance our appreciation for the invitation to the Canadian Labour Congress to make a submission on this very important term of reference of yours, inflation. You will understand that it is highly technical, at least in my estimation, but I am very happy to say that we have here this afternoon the Director of our Research Department, Dr. Eugene Forsey, and Mr. Russell Bell, Assistant Director, Research Department. I would ask Mr. Bell to read the presentation and submission we have to make.

Mr. Russell Bell, Assistant Director, Research Department, Canadian Labour Congress:

Mr. Chairman and members of the committee: The Canadian Labour Congress, which represents more than one million members, welcomes this opportunity to present its views on the subject of inflation.

We believe that much that has been written on this subject, particularly in some widely circulated newspapers and periodicals, has tended to produce misunderstanding rather than knowledge. It is well known, for example, that organized labour has been singled out by some as chiefly responsible for the increase in the general level of prices. This charge has not been supported by adequate analysis. Indeed, most of such charges which we have seen have not been accompanied by any analysis at all.

We do not for a moment deny that wage increases can, in certain circumstances, be an inflationary factor. There are, in certain circumstances one possible cause of inflation. We know of no evidence that they have, in fact, in Canada, since the war, played any appreciable part in the inflations we have actually experienced. Certainly the common notion that wage increases always and inevitably mean corresponding price increases simply will not bear examination.

It is sometimes forgotten, for example, that, though wages have risen continuously since the war, prices have not. Wholesale prices actually fell in 1949, though not much. They fell again in 1951 and 1952, from a July 1951 high of 243.7 (1935-39 = 100) to an October 1952 low of 220.2. They fell again in 1953 and 1954, from an August 1953 high of 222.2 to an October 1954

low of 214.3. They fell again in 1957, from a January high of 229.2 to a November low of 224.1. Even now, wholesale prices are not as high as they were in 1951. The April 1959 figure is 231.2; the 1951 average was 240.2, and the 1951 low was 232.5. Consumer prices fell in 1952, from a January high of 118.2 (1949 = 100) to a December low of 115.8 and went on falling in 1953 to a May low of 114.4.

It is sometimes forgotten also, or overlooked, that, though wage rates in the six years October 1, 1951 to October 1, 1957 (latest index available) rose 31.4 per cent, wholesale prices in the same period fell 6.1 per cent, and consumer prices rose less than 5.4 per cent. The beautiful, simple, easy correlation of wage increases and price increases just does not exist. Prices, whether wholesale or retail, remained remarkably stable while wages were rising fairly steeply.

We should also point out that, even if wages had played a much larger part in inflation in Canada since the war than in fact they have, the blame could not all be chalked up against unions. We are far from suggesting that unions have no effect on wages. But there are other factors, purely economic, market, factors which can push wages up even where there are no unions or very weak ones. Prosperous, high productivity industries, going ahead fast in a boom, will bid as hard as they can for scarce labour, and push up the rates, union or no union; and other industries will have to follow suit or lose their workers. Unions will have their effect; but even in the total absence of unions wages would not stay put if these other factors were present.

Those who think that wage increases since the war are all a matter of union power and union greed and union leaders' ambition should take a look at what has happened to wages in an almost completely unorganized industry like oil and natural gas, and in such highly organized industries as primary iron and steel, pulp and paper, tobacco and motor vehicles. Unfortunately we have no wage rate index figures for oil and natural gas, and no average hourly earnings figures before 1951. But, for the period 1951-1957, average hourly earnings in oil and gas, with almost no union members, rose 39.5 per cent, while in primary iron and steel they rose 51.4, in pulp and paper 46.2, in tobacco 38.3, and in motor vehicles 32.9. In products of petroleum and coal, which is not highly organized, average hourly earnings rose 46.1 per cent. In petroleum refining and products, which again is not highly organized, the wage rate index, from 1949 to 1957 (latest available) rose 76.1 per cent, while in primary iron and steel it rose 76.0, in pulp and paper 74.1, in tobacco 74.6, and in motor vehicles 52.6. It would, of course, be easy (and wrong) to read too much into such figures. The only point we are making here is that it is also easy, too easy (and wrong), to jump to the conclusion that union activity is the only thing that pushes wages up.

In short, we contend that wage increases have not played any significant part in post-war inflation in Canada, and that unions are not responsible even for all the wage increases that have taken place.

We believe that there has been a general tendency to exaggerate, or overstate the current "inflation". We do not wish to minimize the importance of inflation, but we feel that the kind of inflation psychosis that has been built up in this country in the past year or more is not justified by the facts.

We propose to show in this submission that:

(*a*) almost all of the post-war rise in prices has been caused by a classical demand inflation;

(*b*) the recent rise in the cost of living, as registered by the consumer price index, has come largely from either the non-unionized or relatively non-unionized sections of the economy.

Before discussing inflation and its causes, it is first necessary to define as precisely as possible what we mean by this term. The generally accepted definition of inflation is that it is a situation in which the general level of prices shows a persistent tendency to rise. A rise in particular prices or even groups of prices, does not constitute inflation. In our kind of economic system, prices are meant to fluctuate, that is to say, go up or down in response to changes in supply and demand. In theory, at least, prices promote the efficient use and distribution of the nation's resources when they are sensitive to changing relationships between supply and demand. Under relatively stable conditions, individual price changes tend to offset each other. As some prices go up, others come down, and the general price level remains stable. When there is a persistent upward movement of the general price level, it is an indication that more prices are going up than are remaining stable or going down. Then we have inflation. Conversely, when the general level of prices remains relatively unchanged by individual or group price changes, we have price stability.

Measuring Inflation

Having defined what we mean by inflation, it then becomes necessary to measure it. Inflation is much easier to define than to measure. It is impossible, however, to assess the extent of inflation or to know its causes without a proper understanding of the means available for measuring it. We believe that much misunderstanding of inflation, and particularly of its causes, has arisen because of insufficient knowledge of how it is measured.

Unfortunately, there is no single measure for all the important price movements in our economy. There are three, and all three, while useful, have definite limitations. These three are the consumer price index, the general wholesale price index, and the implicit Gross National Expenditure indexes.

(1) The consumer price index, the most widely quoted, measures final or retail changes in prices of goods and services purchased by a large section of our population, urban families of moderate incomes ranging from $1,650. to $4,050. per year. Index weights are assigned to goods and services according to the relative amounts spent on them by this group of consumers, and are related to the year ending August 31, 1948. The single exception is food, whose index weight is related to the year ending September 1949.

Since the weights in this price index are fixed to a particular year, the older the index becomes the less reliable it is likely to be in measuring price changes. Because the present consumer price index is based on spending habits of ten years or more ago, it may be somewhat less than accurate in reflecting price changes in goods and services bought to-day. It may be that this limitation has been overcome to some extent by periodical DBS checks on family expenditure patterns. We suspect, however, that when the index is again brought up to date, it will show a higher proportion of urban family expenditures being made on services. We shall have more to say on this later.

Perhaps an even more important limitation of the consumer price index, or of any of the indexes for that matter, is the difficulty of correcting for quality changes in goods and services. It is often hard to determine whether price increase means that we are paying more for the same commodity or service, or paying more for a better one. As the quality of our goods and services is generally improving, this can be an important factor, especially over a long period of time; less so in the short run.

For example, food is the most important item in the consumer price index, making up nearly one-third of the total, thirty-two per cent to be exact. Any increase in the price of food has, therefore, an important effect on the total index. It is often impossible, however, to know whether an apparent increase in food prices is an increase in price for the same values,

or reflects added values. For it is common knowledge that the degree of processing of foods in the past ten years has increased at a remarkable rate. Indeed, the industrial cleaning and preparing of foods formerly done by the housewife, the revolution in packaging, have undoubtedly added substantially to food costs.

(2) The wholesale price index measures price changes of commodities in the earlier stages of production and distribution. Although it covers a wide range of commodities, it is limited as a measure of general prices because it does not, of course, cover services. It is further limited, like the consumer price index, by the difficulty of making adjustments for quality changes.

(3) The implicit price indexes for measuring all the components (except inventories) of Gross National Expenditure provide the most comprehensive measure of price changes. These implicit price indexes are computed by dividing total current dollars by total constant dollar values. By this method, price changes from year to year for the various components of Gross National Expenditure can be measured. Unlike the consumer price index, for example, which is a weighted index related to a particular year, the implicit price indexes are currently weighted. They thus reflect yearly changes in expenditure patterns. But they also fail to correct satisfactorily for quality changes in the goods and services covered.

Three Periods of Inflation in the Post-War Period

Since the end of World War II, the Canadian economy has gone through three distinct periods of inflation. The first, and most serious post-war inflation, was from 1946 to 1948 inclusive. The consumer price index rose 25.2 per cent. The general wholesale price index rose even faster, 39.2 per cent. The G.N.P. price index went up 23.7.

Thus, measured by all three indexes, there was unquestionably a substantial amount of inflation in this period. Moreover, it was spread more or less evenly between capital goods and consumer goods and services, as an examination of the price deflators for these components of the Gross National Expenditure bears out. The increase in the prices of total personal expenditures on consumer goods and services was about 24 per cent. This last item, of course, includes all spending in Canada on personal consumer goods and services as distinct from the select group whose purchases come under the consumer price index. In the capital goods sector of the economy, prices rose about 26 per cent.

The causes are easy to identify. There was a long pent-up demand for goods, and a sudden increase in the money available to make it effective: veterans' gratuities, tax reductions, return of compulsory savings, an "easy money" policy.

One of the main factors was the large increase in the money supply. When the supply of money increases substantially faster than the supply of goods and services over a period of time, inflation becomes inevitable.

In 1945, just before this first post-war inflation began, the total supply of goods and services (the Gross National Product), in constant (1949) dollars was $15,552,000,000. In 1948, it was $15,735,000,000, an increase of 1.2 per cent. Over the same period, total currency and active bank deposits rose from $3,514,000,000 to $4,335,000,000, an increase of 23.4 per cent. You will notice a very substantial disparity between those figures. The gross national product measuring goods and services increased very, very slightly, by 1.2 per cent, whereas the actual increase in the important part of the money supply, total currency and active bank deposits, increased by a pretty whopping 23.4 per cent.

Senator PEARSON: In constant 1949 dollars the gross national product was $15 billion. In 1948 it was $15,700,000,000. What was the value of the dollar in 1948 as compared to 1949?

Senator LEONARD: The index uses 1949 dollars for all those years, does it not, Mr. Bell?

Mr. BELL: That is right.

Senator LEONARD: And it does not show the actual current dollars. You would have to work it out.

Mr. BELL: We can supply the current dollar figures if the Senator wants them.

Mr. JODOIN: May I at this stage humbly request that honourable senators wait until the question and answer period so that my distinguished colleague, Mr. Bell, will not lose the trend of what he is outlining to the committee now.

Mr. BELL: The second period of inflation was from 1950 to 1951. The consumer price index rose 10.5 per cent, the wholesale price index 13.7, and the G.N.P. price deflator 10.7. The outbreak of the Korean war and the defence build-up throughout the free world brought on heavy world competition for raw materials. Furthermore, there was considerable "scare" buying by consumers who feared a return to wartime scarcities. But the inflation was largely concentrated in strategic raw materials and commodities. Indeed, the scramble for the limited supply of such materials caused some extraordinary price jumps. For example, from June 1950 to April 1951, a period of only ten months, the wholesale price of rubber and its products rose 57.6 per cent. During the same period, fibres, textiles and textile products rose 41.4 per cent. From April 1950 to May 1951, a period of 13 months, scrap iron and steel rose 49.1 per cent. Between April 1950, and the end of 1951, lead and zinc and their products went up 67.6 and 72.9 per cent, respectively.

We have quoted the price increases in these particular commodities to illustrate the point that this inflation was largely concentrated in strategic raw materials that had been brought on largely by the outbreak of war in Korea, and the subsequent defence build-up.

Senator MACDONALD: Fear of scarcity?

Mr. BELL: That is right.

Clearly, then, this second period of inflated prices was another example of classical demand inflation. This time inflation was generated by international forces and the tremendous demand which they created for strategic materials. The bidding up of prices was inevitable under such conditions.

The third distinct post-war inflation began early in 1955 and reached its peak in January, 1957, if measured by the wholesale price index. From January, 1955, the wholesale price index started upward, if somewhat erratically, until in January, 1957, it had risen 6.3 per cent. Between January and February 1957 it dropped slightly and then remained virtually stable until August, 1957, when it began to decline slightly for most of the remainder of that year.

The inflationary rise between 1955 and 1957, as reflected by the wholesale price index, was unquestionably caused by an investment boom. We had a situation in which investors were willing and able to invest more capital than there were resources and manpower to invest in. Once again we had an example of a classical demand inflation, this time brought on by domestic forces and limited in the main to producers' goods.

This investment inflation was sharply registered by the price deflator for the G.N.P. component, "business gross fixed capital formation," which rose 10.0 per cent between 1955 and 1957. An important sub-component, "new machinery and equipment", rose even more, 12.2 per cent. This contrasts with the G.N.P.

price deflator for total personal expenditure on consumer goods and services, which showed a much smaller price increase of 5.5 per cent, for the same period.

We quote those figures to illustrate that this particular inflation was concentrated largely in producer goods, not so much in consumer goods and services, although, of course, it spread to that area to a certain extent.

Once the investment boom was over, the rise in prices quickly slowed down. Between 1957 and 1958, the G.N.P. deflator for the sector "business gross fixed capital formation",—that includes the capital goods or the capital investment field—rose only 1.9 per cent. The price deflator for the sub-component, "new machinery and equipment," increased only 2.1 per cent.

These three periods of inflation account for nearly all of our inflation since World War II. Each period was clearly defined, and the causes are easily identified.

The Last Two Years

In the past couple of years, however, the consumer price index has registered a slow but fairly steady rise in consumer prices, which some have labelled "creeping inflation". The causes have been a matter of great controversy and some confusion. The rise began about June, 1956. Before this, consumer prices had been virtualy stable since the beginning of 1952, a period of 4½ years. The yearly average of the monthly consumer price index numbers in 1952 was 116.5; in 1953, 115.5; in 1954, 116.2; in 1955, 116.4. For the first five months of 1956, the average was 116.6 Then from June, 1956, until November, 1958, the consumer price index rose in 22 months, and either stayed the same or fell in eight months. It was 7.2 per cent higher in November, 1958, than in June, 1956. Since November 1958, the index has dropped very slightly in five consecutive months, and last month—the month of May—rose very slightly.

That consumer prices should rise during the boom surprised nobody. That they should go on rising during a recession surprised almost everybody. From June 1956 to March 1957, while industrial production was rising, the consumer price index rose almost 2.3 per cent. From March 1957 to September 1958, while industrial production was either falling or staying pretty close to its December 1957 low point, the consumer price index rose 4.2 per cent. This, surely, was against nature! Some people promptly blamed organized labour.

This indicates a misunderstanding concerning the measurement of inflation. For the consumer price index reflects largely prices of goods and services where unionization is either non-existent or relatively weak. On the other hand, most of the unionized industries are covered by the wholesale price index. The general wholesale price index did not rise during the recession. Indeed, its behaviour pattern coincided with the business cycle, as a comparison between it and the industrial production index clearly shows. There was virtually no inflation, not even the "creeping" kind, during the recession if inflation is measured by the wholesale price index. Some of the important groups of commodities whose prices, measured by the wholesale price index, either did not rise or even declined during the 1957-58 recession, were: (1) fibres, textiles and textile products; (2) wood, wood products and paper; (3) iron products; (4) non-ferrous metals; (5) non-metallic products; (6) non-residential building materials; (7) residential building materials; (8) industrial materials.

There are a number of reasons why the consumer price index behaved differently from the wholesale index. The consumer index measures final price changes, and so there is bound to be a certain time-lag between wholesale price changes and consumer price changes. The most important reason, however, is that items covered by the consumer index are not substantially the same as those covered by the wholesale price index.

An examination of the price movements of the various components of the consumer price index clearly indicates that a good deal of the rise between 1956 and 1958 was in the relatively non-unionized sectors of the economy. For example, food is the largest component of the index. Nearly a third (32%) of total consumer expenditures goes on food. Yet the food industry as a whole is relatively non-unionized. Between 1956 and 1958, while the total consumer price index went up 5.9 per cent, the price of food went up 7.7 per cent.

In other areas, where the influence of unionism is either non-existent or negligible, the contrasts were even sharper. For example, "other commodities and services", a large category (one-quarter of consumer expenditures), is relatively non-unionized. But the price increase for this component was 8.3%. Health care, a sub-component of this category, went up substantially; e.g., hospital rates 16.3 per cent, doctors' fees 9.6, dentists' fees 11.1, prepaid health care 17.9. Health care as a whole went up 11.8 per cent, exactly twice the rate of increase in the total index.

Eleven per cent of expenditures are made on clothing, perhaps the most union influenced component of the index. Yet the rise in clothing prices during this period was a mere 1.0 per cent.

The inescapable conclusion is that the inflation of the 1955-1958 period, measured by both the wholesale and consumer price indexes, was the result of:

(*a*) the investment boom in 1955-57, which caused a classical demand inflation in capital goods; and

(*b*) the price rise in 1956-58 in services and food, where unionization is weak.

There are undoubtedly a variety of reasons behind the rise in the cost of services, depending, of course, on the service itself. In some instances, it may be that profit margins have been unduly raised. It may be that some professional people, such as doctors and dentists, have unjustifiably raised their fees.

Senator CROLL: Have you not forgotten something? You never have in the past.

Senator HAIG: He has not put the lawyers in yet, but keep quiet.

Mr. BELL: The sharp increase in doctors' and dentists' fees, noted above, strongly suggest this. On the other hand, some of the lowest paid workers, the unskilled, are to be found in the service industries. Many of them unfortunately are getting substandard wages. But the factor which would appear to be generally responsible for the sharp rise in service costs is the low level of productivity. For example, between 1946 and 1955, productivity in wholesale and retail trade showed no increase, indeed actually declined by 0.6%. It was a similar story for finance, insurance and real estate, where productivity declined 1.7% in the same period. This contrasts with a productivity increase for the total private business economy of 23.2% during this same period.

Some observers believe that low productivity in the service industries can be attributed to obsolescent methods. Whatever the reasons, it is a fact that an industry whose efficiency and productivity virtually stands still year after year cannot escape being afflicted with rising costs. While there are undoubted exceptions, the services' industry as a whole would appear to be an important area of the economy to investigate with the object of seeking to improve its general efficiency. This becomes even more pressing as consumers appear to be spending an increasing proportion of their incomes on services. But unless ways and means can be found to raise the level of efficiency in these industries, inevitably sub-standard wages and rising costs will continue to afflict them. It is also inevitable that they will continue to push up the cost of living.

Senator CRERAR: May I ask a question here? How would you define "services"?

Mr. BELL: I would define "services industries" as those industries that—

I should not use the same word in the definition, but they are those industries which render service such as laundries, transportation, restaurants and the retail and wholesale trades. All of these would come under the general category of "service industries".

Senator CONNOLLY (*Ottawa West*): You contrast them with productive industries?

Dr. FORSEY: With commodity producing industries.

Mr. BELL:

Deficit Financing:

Deficit financing, according to certain circles, has been a major inflationary factor. Indeed, there are some who would have us believe that an unbalanced budget is inflationary under any and all conditions. This reasoning, we believe, has no sound economic basis.

It is true, of course, that deficit financing, under certain conditions, can be inflationary. Under other conditions it will not be. If, for example, all available manpower, industrial plants and resources are fully employed, then deficit financing and an expansion of the money supply will certainly produce inflation. If, however, there is considerable unemployment, idle factories and unused materials, then wise use of deficit financing is unlikely to be inflationary. Under these conditions, an expansion of the money supply should be offset by an expansion in the supply of goods and services.

During 1958 there was a substantial expansion of the money supply, primarily because of large bank borrowings by the Government. We find little if any evidence, however, to suggest that this abnormal increase in the money supply produced inflationary effects. On the contrary, the wholesale price index remained virtually stable, fluctuating within a range of only one per cent during the twelve months of 1958.

That is, it fluctuated within the range of one per cent from the low to the high throughout that period. It fluctuated from month to month but never exceeded the low-high range of one per cent.

Nor do we feel any apprehension over deficit financing planned for the 1959-1960 fiscal year. In the first place, the planned deficit has been reduced substantially compared to the previous year. In the second place, the unexpected rise in government revenues may well have the effect of reducing the planned deficit.

Administered Prices:

We have indicated what we believe were the causes of the post-war inflations. All three, each in its own way, were classical demand inflations. They were substantial inflations, and their causes were easy to isolate.

There are other sources of inflationary pressures, however, which are more subtle and consequently more difficult to detect. One of these is the seemingly growing practice of corporations, especially those in a monopolistic or oligopolistic position, to establish their own prices without regard to the market. This practice is referred to as "price administration", or "administered pricing." There are strong suspicions that such prices are artificially set to achieve certain policy goals of the corporation concerned. The Brookings Institution in the United States, an independent research organization, undertook to explore how large corporations set their prices. In its publication *"Pricing In Big Business,"* at page 130 it states: "Target return on investment was probably the most commonly stressed of company pricing goals."

The U.S. Senate Subcommittee on Antitrust and Monopoly, inquiring into administered prices of automobiles, stated in its report (Nov. 1, 1958): "Because of its increasingly dominant position, the level of automobile prices has come

to be largely determined by the pricing methods and policies of General Motors. In setting its prices, General Motors seeks to attain a target goal of 20 per cent rate of return on net worth after taxes at a predetermined level of production, or standard volume. The amount of profit per car needed to yield the desired rate of return at the standard volume is incorporated as a cost in arriving at the price level. When actual production exceeds standard volume, as has been true during most of the postwar period, the actual rate of return exceeds the target. As compared to its target of 20 per cent, General Motors' actual rate of return after taxes on net worth during the period 1948-57 averaged 25 per cent".

These prices are often based on cost plus formulas, the company's object being to achieve predetermined profits. If the price can be set at a level to provide large profits and large depreciation allowances, then the company can finance most, and sometimes all, of its capital requirements from its own internal sources. Setting prices artificially to achieve such objectives cannot help but produce inflationary pressures.

Until governments are able and willing to undertake investigations into such pricing policies, and then do something about them, they will continue to be a source of inflationary pressures.

Labour and Management Cannot Control Inflation:

Those who believe that "excessive" wage increases are the cause of inflation, "the villain of the price story", argue, logically enough, that if only workers and their unions would be "reasonable", would exercise "restraint", would display "wisdom and responsibility", we could stop inflation without any "outside" controls by the Government or the Bank of Canada.

This is an illusion.

It is an illusion first and foremost because wage increases are, at most, only one cause of inflation.

It is an illusion second because the thing just would not work.

Why?

Because each side goes into negotiations to get as much as it can. It must.

If a particular union decides to take less than it can get, what happens? (*a*) The employer pockets the difference; or (*b*) some other union, in another industry, goes all out for what it can get, gets it, and grabs a bigger share of the national income. Higher profits for the boss, higher wages for other workers: not a very tempting reward for the exercise of "restraint"! The union leader who follows this policy will not be a union leader long. Someone else, with more common sense, will soon take his place.

Exactly the same holds for the employer. If a particular employer decides to give more than he has to, what happens? (*a*) The workers pocket the difference; or (*b*) some other employer, in another industry, goes out for all he can get, bargains for the lowest wages he can get accepted, and grabs a bigger share of the national income. Higher wages for the workers; higher profits for some other employer: not a very tempting reward for the exercise of "restraint"! The employer who follows this policy will not be an employer long. Someone else, with more common sense, will soon take his place.

This is the way "free enterprise" works. You bargain for all you can get; if you don't, you disappear.

This is not simply the prejudiced opinion of trade unionists, warped by what in French is called "déformation professionnelle." Mr. Graham Towers, who is certainly no trade unionist, said almost exactly the same thing to two groups of life insurance men in Toronto on November 14, 1957: "In recent times, leaders of government in the U.S. and the U.K.—to mention only two examples—have had occasion to appeal for restraint on the part of labour and business—labour in formulating its wage claims and business in raising prices.

"While such exhortations are no doubt useful in focusing public attention on the problem, I doubt whether they have any immediate practical effect.

"How could they? In any specific negotiation, labour leaders must get the most that they can for their supporters; and a business, if it is going to survive, must strive for a satisfactory return on capital.

"It is only when the consumer cannot readily be saddled with increased costs that restraint must be observed—not as a result of exhortation but as a matter of necessity."

In other words, neither Labour nor Management nor the two together can control inflation. Exhortations to Labour leaders (or business men) to practise "wisdom" and "responsibility" are (as old Hobbes said of "covenants without the sword") "but words and breath, and of no force to oblige a man at all." Inflation, like civil war, can be prevented, or stopped, only by the sovereign State; by the public authority (in this case the Dominion Government and the Bank of Canada) imposing the necessary fiscal, monetary and, if need be, physical, controls.

Controlling Inflation:

There is a tendency in some circles to advocate the use of general monetary controls to prevent or stop inflation, irrespective of whether it is widespread, classical demand inflation, or springs from more localized and specific sources.[1]

By general monetary controls we mean, of course, action by the Bank of Canada with the usual techniques that it has at its disposal, such as market operations and that sort of thing.

We believe, however, that unless inflation results from an excess of demand spread generally throughout the economy, monetary controls may do more harm than good.

For example, it is doubtful that the use of general monetary restrictions had much effect in stabilizing prices during the period 1955 to 1957. As we have already observed, inflation in that period sprang largely from a specific area of the economy, the capital investment field. What was required at that time was some specific measure or measures to deal with a specific source of inflation. What we got, however, was a general "tight money" policy which largely affected those sectors of the economy which were least responsible for generating inflationary pressures: housing construction, small businesses, municipal and public corporations, and others who depend heavily on external borrowing. It had its least effect on the large corporations, who obtain the major portion of their investment funds from internally generated savings: undistributed profits and depreciation allowances. Ironically, however, it was these corporations whose investment boom was primarily responsible for the inflation! Yet the investment boom ran its natural course, largely unimpeded by monetary policy.

The investment boom, by stimulating excessive demand for materials and resources, pushed up prices. At the same time, by overexpanding productive capacity in particular sections of the economy, it helped bring on the recession. We lost out both ways.

The experience of this period leads to this conclusion: since general monetary controls cannot be directed against specific sectors of the economy, they should not be used to combat inflation which springs from particular economic pressures. The result may only be to slow up economic growth in areas which can sustain expansion, thus bringing on unemployment. At the same time the effect on restraining the sources responsible for inflation may be negligible at best. In any event, it makes little sense to impose restraint on the entire economy just to get at the one or two sources which may be responsible for generating the inflation. Selective controls should be substituted.

A selective control that may merit serious investigation is a variable depreciation rate. This method would permit depreciation rates to be reduced during periods of investment booms, and raised when the rate of investment was on the low side. The use of variable depreciation rates would thus not only help in coping with investment inflationary pressures, but would also help counteract recessionary forces.

There are other specific sources of potential inflationary pressures which can only be dealt with effectively by selective controls. These are the credit and investment policies of our non-banking financial institutions, including life insurance companies, trust and loan companies, consumer credit agencies, mortgage concerns, as well as the liquid assets of corporations. Since these financial institutions lie outside the banking system, the Bank of Canada's anti-inflationary actions can have at best only indirect effect on the credit and investment policies of these concerns. Collectively, however, these institutions have control over huge sums of capital and consequently exert enormous influence on the nation's economy. It would seem that what is needed is proper co-ordination of the policies of our banking and non-banking financial institutions, if we are to promote economic growth and stability at the same time.

A Built-in Brake on Inflation:

It is sometimes forgotten that we have a built-in brake on inflation in the form of increasing productivity. This is particularly notable at the present time. There are no precise figures on productivity changes in the recent past. Available data clearly suggest, however, that there has been more than a normal rise in productivity if compared with the pre-recession period. We have chosen to compare, for example, June, 1957, shortly before the recession, with February, 1959. We have selected these two months only because the production indexes in manufacturing for both months were identical, 143.4 (1949=100, seasonally adjusted).

In June, 1957, the number of wage-earners in manufacturing was 865,203. The number of man-hours worked during that month was approximately 140,162,886. In February, 1959, the number of wage-earners was 791,727, a drop of 8.5 per cent. The total number of man-hours worked was approximately 129,526,537. 7.6 per cent fewer man-hours were required to turn out the same production. This means, of course, that unit labour costs in manufacturing declined significantly during this period. This is a counter-inflationary force.

Conclusions:

In conclusion, and by way of summary, we should welcome:

(1) A public inquiry into pricing practices by our larger corporations;

(2) An inquiry into ways and means of coordinating the policies of banking and non-banking financial institutions in the interests of economic growth and stability;

(3) A study made of non-monetary selective controls to deal directly with specific inflationary pressures as they arise.

The CHAIRMAN: Thank you very much, Mr. Bell. That was a very interesting brief.

We will now have questions from honourable senators.

Senator REID: You are not quite correct in your statement on page 10 in speaking about hospital rates and hospital staffs being non-unionized. I know you cannot take my province as a criterion, but in British Columbia the hospitals there are very highly organized, they are organized so much that if a bomb were to be dropped on a hospital you would have to get the man who is responsible for that, or the woman who sweeps the floor would not

clean off the desks. That is about how highly unionized they are in British Columbia, the most highly unionized place I know. It has got to a point where we have the highest-priced hospitals in the whole of Canada—$23 a day for a private room, due to the fact that everything is so highly organized.

Mr. FORSEY: It varies from province to province, Senator Reid. Not all provinces are as blessed as British Columbia.

Mr. JODOIN: I would certainly think that if a bomb were to fall on a hospital in British Columbia that the floor sweeper is not the person qualified to see that it should not explode. I believe that these qualifications of the various functions in hospitals are necessary. There is a very high percentage of organization in British Columbia and we are very happy about it.

Senator REID: But I think it is going too far.

Senator CROLL: Mr. Chairman, I have a few questions. What have you in mind, Mr. Bell, when you suggest a public inquiry into present practices of our larger corporations and anyone on the panel can take that question.

Mr. BELL: What I have in mind there is something very comparable to what is done in the United States. They set up a subcommittee, the Kefauver committee, known as the anti-trust and monopoly committee. I think it was a subcommittee of their judiciary committee.

Senator CROLL: But we have had our price investigation committees on a couple of occasions here in Canada.

Mr. BELL: This is of a different nature.

Senator CROLL: In what respect is it different?

Mr. BELL: They delved specially into price setting on automobiles and other things such as steel.

Senator CROLL: I know that report, but you are talking about the United States?

Mr. BELL: That is right.

Senator CROLL: But I am talking about Canada. Here we have had our price spreads inquiries. In what respect do you suggest now that we deal with this that is different from what we did in years past?

Mr. FORSEY: My recollection is that the first of the inquiries to which you refer to, Senator Croll, was one made around 1935 initiated by the Hon. H. H. Stevens. I do not recall that this particular question of administered prices entered very prominently into that. But that was a long time ago and the conclusions which were drawn 25 to 30 years ago are not necessarily still valid. The second one, as I recollect it, was in the fall of 1948. I remember giving evidence before that committee. I do not recall this particular question coming up there either.

Senator CROLL: Steel was a big factor there. I was on that committee.

Mr. FORSEY: Did you go into this question of administrative pricing in steel?

Senator CROLL: No, but the controls were on then, and the question of taking off the controls would raise the price $5 a ton. But that is not the point. You now want somebody to deal with the special problem of administered prices, is that what you suggest?

Mr. FORSEY: That is right.

Senator CROLL: Without regard to anything else at the moment?

Mr. FORSEY: That is what this particular point is.

Senator CROLL: But you make that as your first point?

Mr. FORSEY: Yes.

Senator CROLL: In investigating administered prices from the point of view of labour are you prepared to sit around the table and respond to the natural query that will arise when they say, "That is the fellow responsible for my increase in prices, and he is responsible for me having to administer the prices." Are you prepared to be a party to it?

Mr. FORSEY: Yes, and I think the clearest proof of that is that one of the unions asking consistently for that is the steelworkers' union. They have asked for it over and over again. If I remember correctly they very recently asked for a report on this very point, contending that the price increases in the Canadian steel industry had very little to do with wage increases.

Senator CROLL: Yes, but don't you see what the next question that follows in the minds of many, and I think Mahoney made the statement in which he said they were prepared to sit around the table in dealing with this matter of prices. Now, the public could be led to the conclusion that labour was prepared to bargain.

Mr. FORSEY: On what?

Senator CROLL: On a question of wages.

Senator LEONARD: Was it not his point that he was prepared to accept an increase in wages that did not exceed the increase in productivity?

Senator CROLL: He made that point. He said they were prepared to match wages against productivity. Do you recall that statement?

Mr. FORSEY: No, I do not.

Senator CROLL: In any event, that is labour's position as stated by the steelworkers' union?

Mr. FORSEY: Yes.

Senator CROLL: Mr. Bell, how do you suggest that the second portion of the conclusion should be faithfully brought about? True the Government is responsible for the Bank of Canada and monetary and fiscal policies, but these other insurance companies, loan companies and trust companies, how do you bring them into line?

Mr. BELL: This particular subject has been given some consideration. The present Governor of the Bank, as a matter of fact, on one or two occasions has suggested that an inquiry should be made into this with the object of working out as efficiently and as effectively as possible ways and means of giving the Government, perhaps through the Bank of Canada, some influence over their policies so that you do not get a conflict between the policies of, for example, the consumer credit agencies and the Bank of Canada. The Bank of Canada may, for example, be pursuing an anti-inflationary policy. On the other hand, you may have consumer credit agencies and other non-banking financial institutions, which lie outside the banking system, pursuing directly opposite policies. Therefore, you get a conflict, a weakening of the influence of the Bank which is trying to bring about some degree of stability.

Senator CROLL: I agree with everything you say but how do you correct that situation other than by controls, directly or indirectly?

Mr. BELL: That is the reason, Senator Croll, we suggest an inquiry should be made into this with the object of working out ways and means.

Senator CROLL: You have nothing in mind at the moment?

Mr. FORSEY: You probably remember the passage in the Bank of Canada report—I cannot remember whether it was 1956 or 1957—where Mr. Coyne went into this in considerable detail.

Senator LEONARD: To keep the record clear, did he not deal with just consumer credits?

Mr. FORSEY: I do not think so.

Senator CROLL: I think it was just consumer credits.

Mr. FORSEY: I speak subject to correction but my recollection is that he went rather beyond that and he stirred up considerable dust at the time, as I recall it. Some of the members of the Conservative party thought he was going beyond his powers in calling attention to this. I personally did not agree with that feeling because it seems to me a perfectly proper function for the Governor of the Bank of Canada to make suggestions of this kind in the light of the kind of job he is called upon to do. He made a strong case for a careful investigation of this subject and of what could be done to improve the situation. It is possible that what we are suggesting here goes a little beyond what he suggested, but I think it is along the same lines.

Mr. JODOIN: In order to put the minds of honourable senators at ease, I would like to say that the inquiry we have suggested would show what things are required to be corrected. I assure you that it is not the intention of the Canadian Labour Congress to choke away or choke off free enterprise like some free enterprisers, with the collusion of a certain company, are trying to choke away in Canada today free trade unionism. If that will put your mind at ease—

Senator CROLL: Don't waste any time putting my mind at ease.

Mr. JODOIN: We simply want to make clear what the real situation is.

Senator CROLL: I just don't want you to nationalize D'Arcy Leonard.

Mr. JODOIN: Don't have any fear of that.

Mr. FORSEY: We are not thinking of nationalizing anything. We are merely suggesting that this be investigated.

Senator CROLL: The idea caught me and I wanted to know what you had in mind, what you wanted to find out? I have no preconceived views on it. We are having lumps of unemployment in some places and booming business in other places. In my recollection it is a most unusual situation. I have not seen too much of it before. What bearing has the suggestion you make that we deal with the question of unemployment in each particular region?—and if you did not suggest it then that is what I gathered from your brief? If you dealt with it in that way what effect would it have on the rest of the economy? Do you follow me, Mr. Bell?

Mr. BELL: Yes. I was wondering for a moment whether you might possibly have construed us as suggesting the use of a monetary policy or some such thing for local areas.

Senator CROLL: No.

Mr. BELL: Because I don't think that would be possible.

Senator CROLL: No. You talk here of an overall policy which is not applicable to the whole of the country. Do you follow me?

Mr. BELL: Yes.

Senator CROLL: I suggest that we have areas of prosperity and areas of unemployment. How would you apply the remedy to any one portion of the economy?

Mr. BELL: If the kind of policy that we suggest had been adapted in the 1955-1957 period rather than the so-called tight money policy, which included general monetary restraints, then the Maritimes, which I understand complained very bitterly about this, and certain economic elements which were not responsible for generating inflationary pressures, would not have been hurt.

Senator CROLL: How do you pass a law which provides in effect that the Steel Company of Canada, which is very rich, cannot get a bank loan while some poor housebuilder in the Maritimes can, or *vice versa*. For instance, if both the Steel Company of Canada and the housebuilder in the Maritimes want

money from the Bank, how do you pass a law which allows the banker to say to the Steel Company, "No, you had better hang on to your reserves. We will not lend you money but we will lend to the housebuilder in the Maritimes"?

Mr. BELL: I do not know whether my colleagues agree with me but I have favoured for a long time applying selective controls so far as the lending powers of the banks are concerned.

Senator CONNOLLY (*Ottawa West*): By regions or by industries?

Mr. BELL: It could be by regions and also by industries. It has been suggested, incidentally, in banking circles in the United States. If in 1955-57, when certain sectors had bank loans choked off, such as housing, there had been a policy of granting funds to these particular concerns, and choking off or at least reducing funds to other bodies and corporations—

Senator CROLL: Look, desirable as that is the banker who lends money looks at the borrower with a frozen eye and says, "You are a good risk or you are a poor risk. I am going to lend my depositors' money on good risks and not on poor risks".

Mr. BELL: Correct me if I am wrong, but I don't think that was primarily the difficulty in the 1955-57 period. I don't think, for example, that housing funds or loans were cut off because the bankers decided that the borrowers were not good credit risks. They had to ration their limited credit. It was normal for them to do so and I don't blame them at all; I would have done precisely the same thing. But they had to ration the limited credit which resulted from the Bank of Canada's relatively tight money policy.

Therefore, why shouldn't they ration that credit to their most creditworthy customer? I don't crticize the bankers, but I do criticize—

Mr. FORSEY: May I intervene? There are two possible ways around the difficulty. I don't think that we can expect a banker to lend money to me, in the Maritime provinces, at "X" per cent, when he can get "X" plus 1 per cent somewhere else. If it is a question like housing, where there may be a special social reason for keeping up the rate of investment, then it seems to me it is a matter of public policy, and the Government must subsidize it to some extent.

Senator CROLL: I do not quarrel with that; the Government did that very thing. Now to go beyond that point, getting away from the social implications and getting down to hard business facts. You have only so much money; how do I, as a small businessman, get a loan?

Mr. FORSEY: The point that was being made here, to take the case of the Steel Company of Canada, as an example, was that they don't have to go to the bank and borrow money, because they have lots of liquid resources. An increase in the interest rate does not affect them.

Senator CROLL: It is true, they don't have to go to the bank, and a jacking-up of the interest rate does not affect them as it does me, a small businessman.

Mr. FORSEY: That is our point. It hits you and it doesn't hit them. That is exactly one reason why we want some investigation on that point.

Senator CROLL: But do you have no solution to offer for any of these problems?

Mr. FORSEY: It seems to me the solution is difficult. I heard Senator Connolly, I think, mention the word "constitution". I am inclined to think there would be a constitutional problem, following the suggestion Mr. Coyne made in his annual report. Suppose there are constitutional problems, if inflation is a great danger, as a lot of people think, and if our constitution is not adequate to prevent ruinous inflation—I am not expressing an opinion—then we should take a look at our constitution. I am thinking of what some people say, that inflation is a worse danger than Khrushchev or the atomic

bomb. If that is the case, no holds should be barred in an investigation of what can be done about it. If we haven't got the constitutional power to deal with it, then we had better get it.

Senator CONNOLLY (*Ottawa West*): You have not gone far enough to accomplish the purpose of finding a solution for the problem Mr. Bell raises.

Mr. FORSEY: Frankly, I think not. After all, we are a very small department; we are in the position of a general practitioner who can point out a problem and say that expert research is required to deal with it, but is not in a position to, for instance, design a cobalt bomb on his own.

Senator CROLL: Why, I quote you here every day as an expert. Am I mistaken?

Mr. FORSEY: You are too flattering.

Senator MACDONALD: During the hearings of this committee we have had a number of witnesses, and in a number of instances when the words "creeping inflation" have been mentioned the witnesses have thrown up their hands in horror. What is the opinion of the Congress with respect to the danger of creeping inflation as it affects our economy?

Mr. FORSEY: We are not very much impressed. We are inclined to think that the talk that creeping inflation will become galloping inflation has been greatly exaggerated. And in that view we are in such good company as Professor Sclichter of Harvard who says that if you look at the post-war record in the United States—and it is also true of Canada—you find the degree of inflation is comparatively moderate, and there has not been a steady succession of rising prices; there have been ups and downs, and the present wholesale level is actually below what it was in 1951. There has been a small increase in prices over the last couple of years. But we think that it is going too far to say the sort of thing some people do, which sounds like the Bishop of London in 1931: "The pound will be worth 10 shillings within a week, a shilling within a month, and a penny within a year.

Senator LEONARD: Is there not a difference between the inflation we have had in the past, which has come about without any question of deliberate policy or intent, and has happened notwithstanding the policy that may have been directed towards stability of prices, and for accepting it as a policy which is advocated by Professor Sclichter and saying, that we can lay our plans on the basis that we may expect 2 or 3 per cent inflation, and then endeavour to contain inflation within that particular ratio?

Mr. FORSEY: I was not accepting the whole of Professor Sclichter's position. I was merely pointing out his statistics, and saying that much the same holds for Canada. In North America generally there has not been big inflation.

Senator LEONARD: But he goes further.

Mr. FORSEY: He goes further. I am inclined to be a little less convinced than he is that even a continuing small inflation is inevitable. However, I would go with him to this extent, that if I had to make a choice between a continuous, contained inflation, and heavy continuous unemployment, I would choose the first and not the second.

Senator LEONARD: So would we all, if that were our choice. But is that the choice?

Mr. FORSEY: I don't think it is necessarily so; I hope not.

Senator LEONARD: I hope not. The danger seems to be that creeping inflation, if adopted as a policy, will become galloping inflation, and then we will have greater unemployment at the end of it.

Mr. FORSEY: I don't think so.

Senator SMITH (*Queens-Shelburne*): Mr. Chairman, may I ask one question? The brief finds fault with what is described as the general tight money policy in times of boom, such as in 1955-57. May I ask, how would you describe the present money policy in Canada, at a time which is certainly less than a boom time? Is it a tight money policy at the present time?

Mr. BELL: Before I answer that part of your question, I would like to comment on the first part of it. In the period 1955-57, it is quite true that the Bank of Canada did not pursue a tight money policy in the sense of actually reducing the cash reserves of the chartered banks. The tight money policy came about simply because it did not increase those reserves sufficiently to bring the supply in balance with the demand, and that is why we had a tight money policy.

At the present time, from what I have been able to learn of the Bank of Canada policy, it certainly is not a tight money policy; it has, for various reasons, had to increase the reserves of the chartered banks primarily to sustain Government borrowings. This was certainly true in 1958, when we had an undue expansion of money supply. If I recall correctly, between July 1957 and October 1958, the Governor of the Bank of Canada in his report stated that money supply actually increased 15 per cent.

Senator SMITH (*Queens-Shelburne*): That is already on the record. May I refer to the present, from October 1958 up to the present time? What is your understanding of the price policy?

Mr. BELL: It is hard to tell at the present time, with respect to the period from October or November up to the present moment. I agree with the Minister of Finance in his explanation as to, I think, part of the reason for tight money now. It is because of increased competition among investors for funds. I rather suspect, though we will not know until we get figures on this period, that we are going through times almost similar to the investment boom that took place in 1955-57. Certainly the economic indicators give that impression, though perhaps not to the same extent. In which case, we might well have a tight money situation—tight not so much in the sense of Bank of Canada restraining the chartered banks, but in not increasing their lending capacity sufficiently to come into balance with the demand for funds.

Senator SMITH (*Queens-Shelburne*): That would be the same situation that has existed.

Mr. BELL: Well, it could be. I do not think it is fair to make any pronouncement at present.

Senator MACDONALD: In certain industries, in certain sections of the country, during recession.

Mr. BELL: Yes.

Senator CONNOLLY (*Ottawa West*): Some of this money is going to come from outside of the country, of course, by way of foreign investment.

Senator CROLL: This subject of inflation was first raised I think back in November—both inflation and unemployment. Now, as between those two problems, which do you think at the moment is more vital to the economy of the country?

Mr. BELL: Which is more vital or the more important?

Senator CROLL: Well, more important is more vital.

Mr. BELL: Certainly I think that unemployment—even at the present time, though it has been slashed considerably in the past month, it still constitutes a fairly large part of the labour force—5.4 per cent, I believe it is—I think that is much more important than inflation. And when I say inflation at the present time, I put the quotation marks around it, because I think inflation is not as important as some people think.

Senator CROLL: That is the answer I wanted to get for some time. Do you agree with that, Forsey?

Mr. FORSEY: Yes, certainly.

Senator CROLL: You do not think inflation is really a problem?

Mr. FORSEY: I don't believe so at the present time. I think it is a problem that can always arise, and that it is something which the Government, the Bank of Canada, in fact all the rest of us, ought to look out for.

Senator CONNOLLY (*Ottawa West*): In the brief you spoke of the inflation psychosis that has been built up in this country in the past year or more, and that it is not justified by the facts. Would you care to say who has built up this inflation psychosis—what agencies have done it?

Mr. FORSEY: Well, I have seen some newspaper articles, a series of them which appeared, I think, in the Saskatoon *Star-Phoenix* and the Regina *Leader-Post*. Mr. Bruce Hutchison gets the jitters over this thing from time to time. Those are the two instances I can think of.

Senator CONNOLLY (*Ottawa West*): Surely that would not be enough to bring about concern, an inflation psychosis, throughout the country?

Mr. FORSEY: Well, I think there have been some manifestations of anxiety among the government's opponents, have there not? I do not know that I am an authority on that.

Senator CROLL: Is the country that much concerned about the opponents of the Government?

Mr. FORSEY: Surely it pays some attention.

Senator CROLL: What you are avoiding and not saying is that bank presidents and insurance company presidents—

Mr. BELL: Oh! yes, the bank presidents' speeches have been full of it.

Senator LEONARD: What about the investors, do they appear to have any opinions on the subject of the threat of inflation?

Mr. BELL: Well, the investors had been taking their money out of bonds and putting them into stocks, and that of course is the reason you have the rather paradoxical situation of bond yields going up in a period of comparatively—

Senator LEONARD: Is that a reflection of a rather general state of things throughout the country?

Senator CONNOLLY (*Ottawa West*): Is it a psychosis then?

Mr. BELL: In my humble opinion, I think it is.

Senator LEONARD: Do you think you help those investors by telling them you rather think we can go on with this inflation and rising prices and that the bonds are going to be worth less next year, and even the year after?

Mr. BELL: We haven't said that.

Senator LEONARD: That is the impression I had.

Mr. BELL: No, our suggestion is that the amount of inflation suggested in certain circles—and many have, as a matter of fact, in speeches indicated that inflation has gone much farther than the facts indicate—that this is the sort of thing we do not feel is justified.

Senator CONNOLLY (*Ottawa West*): In other words, you say to the investor, "Go ahead and buy the long-term bonds, because you will get your money". Is that fair?

Mr. FORSEY: I would not go so far as that. I hesitate to give advice, especially financial advice, but I would be inclined to say that the dangers are not really as big as they are made out to be. That is a little different.

The **Chairman**: Senator Crerar?

Senator **Crerar**: I would like to ask a question. As a matter of fact, in the past number of years, going back say four or five years, there has been much discussion about unemployment. As a principle of public policy, does not the Congress consider it a matter of Government policy to see that unemployment is prevented, in other words, to find work for the people unemployed?

Mr. **Forsey**: May I answer that a little bit more fully than perhaps Senator Crerar wishes? First of all, I would say this, that we think that it is the responsibility of the Government to see that there is full employment. In the second place, I would say that that does not mean that every last person who wants a job will necessarily get it. It means there will be roughly speaking as many jobs as there are workers—enough to go round. But in any kind of economic system that is not a slave system there will always be an appreciable proportion, say something like roughly three per cent of the workers, who at a given moment won't have a job. They will be moving from one job to another and temporarily out of employment, but it will be short-term unemployment. I think the economic term is "frictional unemployment", and to a certain degree it will be inevitable, even if you have enough jobs to go round. In the second place, full employment certainly does not mean that everybody will get precisely the job he wants, because he may be a skilled coal miner, and if the coal industry is going downhill he will have to transfer to something else. The other thing is that in this country the difficulty of full employment policies is considerably enhanced by the immense distances we have, which make it very costly for people to move from a place where there is low employment to where there is high employment, and also by the existence of our two languages, because it may be very difficult for a person in Three Rivers, let us say, to pick up and go out to Vancouver where he won't find too many people speaking French or able to understand him. With those qualifications I consider it is the business of the Government to adopt such policies as will generally, over a reasonably short period, reasonably long period, ensure that there will be enough jobs to go round. We do not see who else can do it.

Senator **Crerar**: We are excluding the two or three per cent of people who may be moving from one job to another. How do you propose the Government can carry that out?

Mr. **Forsey**: Oh, in a great variety of ways.

Senator **Crerar**: Public works?

Mr. **Forsey**: In part, but an over-estimated part. I think there is a tendency in many quarters to give too high a place to that. It would be a matter of monetary policy, of tax policy, of social security policy, of a variety of things; depreciation policy, for example.

Senator **Crerar**: This a problem, Mr. Chairman, that has perplexed me a great deal, because if we place that responsibility on government, how can we do so without giving government more power to say where a man shall work, and the wages that he shall work at? Can we do that?

Mr. **Forsey**: Oh, yes, I think so.

Senator **Crerar**: I don't think so.

Mr. **Forsey**: I think it is for the Government to create the conditions—

Senator **Crerar**: That is different. I have great respect for you, Forsey, but you are hedging a bit.

Mr. **Forsey**: I hope not.

Senator CRERAR: It boils down to the bare fact, and all our discussions in Parliament I would say for four or five years have been directed to that end, and it has been a common factor in elections, the policy of full employment, finding jobs for people. If we are to accept that as a principle, are we willing to face the consequences of it?

Mr. FORSEY: I think that is a perfectly good question, and I think we ought to be willing to face the consequences but I do not think the consequences which can be envisaged are the sort you contemplate, Senator Crerar.

Senator CRERAR: My dear Forsey, the only place today where there is full employment is in Russia.

Mr. FORSEY: But it does not follow that you can achieve that result only by Russian methods.

Senator CRERAR: Well, Mr. Chairman, I have planted a seed which I hope will bear some fruit.

The CHAIRMAN: It may.

Mr. JODOIN: Mr. Chairman, I just wish to state this to the committee, that the previous Government and our present Government has received our suggestions a number of times that there should be an advisory council formed where representatives of Government, naturally, employers as well as labour, could discuss this matter of employment away ahead of the time that it occurs, A comment on the remarks of Senator Crerar that the only way to full employment is by concentration camps, we do not agree with. The interchange of ideas that we could achieve from the formation of such a committee will solve these problems; whether it is a matter of transportation to transport people from one section of a country which is depressed to another section which is prosperous, or some other step.

Senator CROLL: Like the unemployment insurance?

Mr. JODOIN: Let us not start that before this committee. I would say it is not within the terms of reference, but I am willing to discuss this at any time.

Mr. FORSEY: May I just add one thing since the question of unemployment came up so prominently. We feel that one very important contribution that can be made to that is to tackle the problem of seasonal unemployment much more vigorously than it has been tackled here yet. We made certain proposals to the winter employment conference last July which I think have perhaps have had some influence in certain measures that were adopted, and we think further measures along this line could be taken. I do not think the things we suggested there involved any of the serious consequences Senator Crerar had in mind.

Senator CRERAR: Well, let me give you a case I know of. Sometimes we can illustrate our points better by telling of a particular case. About ten days ago a farmer in eastern Manitoba wanted to hire a man, he needed one and had difficulty in getting anybody. So he got in touch with the unemployment insurance agent in Winnipeg and they sent a man and when he got there he looked around, stayed over night, and without doing a tap of work he headed back the next morning the way he came.

Mr. FORSEY: I think all of us run across cases of that sort. I had the same kind of story here from Hon. Alvin Hamilton.

Senator CONNOLLY *(Ottawa West)*: Mr. Chairman, arising out of conclusion number one, a public inquiry into present practices by the larger corporations. There you are talking about administered prices?

Mr. FORSEY: That is right.

Senator CONNOLLY *(Ottawa West)*: What about the Combines Act? Would you suggest that perhaps an amendment to the Combines Act might have the effect of accomplishing the purpose you have in mind?

Mr. FORSEY: It might, senator, but I would be inclined to think we need a good deal more specific information on that before we can be sure of it.

Senator CONNOLLY *(Ottawa West)*: In other words what you are looking for is a study leading to some legislation which might or might not be an appendage to the Combines Act?

Mr. FORSEY: Yes.

The CHAIRMAN: I see, honourable senators, that we have no quorum.

Senator McLEAN: Mr. Chairman, I would like to ask the witness a couple of questions, to know if there was very much worry about unemployment before this talk of high interest rates and tight money started to circulate. Before that were you pretty fully employed? Let us go back three years.

Mr. BELL: During the investment boom?

Senator McLEAN: Was unemployment a question before that?

Mr. BELL: No; unemployment part of that time was only 2.8 per cent of the total working force.

Senator McLEAN: Do you consider that high interest rates and tight money had something to do with contributing to the increase in unemployment?

Mr. BELL: I think, as a matter of fact, that the general monetary policy of that period did as you just suggested. It actually brought on the recession to some extent.

Senator McLEAN: I made a statement here before the house and I would like to have your opinion on it. I made it in the Senate. It was as follows: Different things contribute to inflation or might cause inflation, and it was agreed that some did and some did not: cartels and price fixing schemes, excess import quotas and tariffs, dumping duties, taxes and taxation, sales taxes, high freight rates and so forth. High interest rates and tight money— I can see no effect on those. I certainly agree with you that the same thing contributes to unemployment.

Senator TAYLOR (*Westmorland*): Mr. Chairman, I was very much interested in Mr. Bell's remarks in connection with the regional application of credit or tight money policy. I recall back at that time, around 1955 and 1956, that we in the Maritimes did not have any inflation anywhere and I felt that particularly essential services such as hospitals and schools should not be penalized by the tight money policy or high interest rates whereas certain industries could get by without them. I know of oil companies with tremendous amounts of money behind them who were building service stations all over the place where they were not needed but to build hospitals and necessary homes it was almost impossible to do because of the terrific cost. At that time I had some responsibility in my province and I came to Ottawa to see if there could not be regional applications of these policies of restrictions, and I believe that does apply in the United States. If I am not too far out of line I believe there are four zones in the United States where different credit restrictions—

The CHAIRMAN: As I understand it, the Federal Reserve Board has certain regions. It might raise the discount rate with effect, say, from Thursday night, and probaby two banks will follow that, but you will find that within a period of eight or ten days Chicago will fall in line with it, and then California will fall in line with it. I have thought about dividing Canada into three different zoning rates.

Senator TAYLOR (*Westmorland*): I was told that my theory was sound and reasonable, but the Bank of Canada could not permit it.

Senator McLEAN: The directors of the Bank of Canada have no authority to do that.

The CHAIRMAN: We will adjourn now. I want to thank you very much, Mr. Jodoin, for being here, and Dr. Forsey and your associates.

The committee adjourned.

Ad (Senate), 1959

Second Session—Twenty-fourth Parliament
1959

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE
on the Threat of Inflation in Canada

No. 7

WEDNESDAY, JUNE 24, 1959

THE HONOURABLE CLARENCE V. EMERSON,
Chairman

WITNESSES:

Mr. James Muir, Chairman and President, Royal Bank of Canada.
Mr. J. Douglas Gibson, General Manager, Bank of Nova Scotia.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

21533-5—1

THE STANDING COMMITTEE ON FINANCE

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ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, TUESDAY, April 28, 1959.

"Pursuant to the Order of the Day, the Senate resumed the postponed debate on the motion of the Honourable Senator Wall, seconded by the Honourable Senator Leonard:

That the Standing Committee on Finance be instructed to study the threat of inflation in Canada;

That the Committee have the authority to send for persons, papers and records, and to report from time to time.

After debate, and—

The question being put on the motion—

The Senate divided and the names being called they were taken down as follows:—

CONTENTS

The Honourable Senators

Baird,
Basha,
Beaubien,
Bois,
Boucher,
Bradette,
Connolly (*Halifax North*),
Connolly (*Ottawa West*),
Crerar,
Croll,
Dupuis,
Euler,
Farquhar,
Gershaw,
Golding,
Grant,
Hodges,
Hugessen,
Isnor,
Jodoin,
Lambert,
Lefrançois,
Leonard,
Macdonald,
McGrand,
Petten,
Pouliot,
Pratt,
Reid,
Robertson,
Roebuck,
Savoie,
Smith (*Kamloops*),
Smith (*Queens-Shelburne*),
Stambaugh,
Taylor (*Westmorland*),
Vaillancourt,
Veniot,
Wall,
Woodrow—40.

NON-CONTENTS

The Honourable Senators

Aseltine,
Brunt,
Buchanan,
Emerson,
Gladstone,
Haig,
Higgins,
Horner,
MacDonald,
Methot,
Pearson,
Quinn,
Sullivan,
White.—14.

So it was resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

WEDNESDAY, June 24, 1959.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 9.30 a.m.

Present: The Honourable Senators, Emerson, *Chairman;* Beaubien, Bouffard, Brunt, Burchill, Campbell, Connolly (*Ottawa West*), Crerar, Croll, Dupuis, Euler, Fraser, Golding, Haig, Hayden, Higgins, Horner, Isnor, Leonard, Paterson, Reid, Savoie, Smith (*Queens-Shelburne*), Stambaugh, Taylor (*Norfolk*), Thorvaldson, Turgeon and Woodrow.—28.

In attendance:

Dr. John J. Deutsch, Economic Consultant.

The official Reporters of the Senate.

Consideration of the order of reference of April 28, 1959, was resumed.

The following were heard:—

Mr. James Muir, Chairman and President, Royal Bank of Canada.

Mr. J. Douglas Gibson, General Manager, Bank of Nova Scotia.

Further consideration of the order of reference was postponed.

At 12.15 p.m. the Committee adjourned until Tuesday next, June 30th instant, at 10.15 a.m.

Attest.

John A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, Wednesday, June 24, 1959.

EVIDENCE

The Standing Committee on Finance, which was instructed to study the threat of inflation in Canada, met this day at 9.30 a.m.

Hon. Mr. EMERSON in the Chair.

The CHAIRMAN: Honourable senators, the hour has arrived, and we have two witnesses this morning: Mr. James Muir, Chairman and President of the Royal Bank of Canada; and Mr. J. Douglas Gibson, General Manager of the Bank of Nova Scotia. Mr. Muir will be the first witness, and he will read his brief. We would be glad if you would postpone your questions until he is through.

Mr. MUIR: Thank you very much.

Mr. Chairman, Honourable Senators:

I realize that the honourable gentlemen present have already heard a number of briefs on the subject of inflation. I have seen some of these and I am, of course, especially familiar with the one presented by The Canadian Bankers' Association on behalf of all the banks. I feel nevertheless that individual witnesses, speaking for themselves, can make a contribution. The large briefs with their facts, figures and excellent over-all analyses provide what we might regard as a common textbook which all of us have now studied. I would like to approach the familiar theme in a somewhat different way. I shall not expound in detail the various arguments against inflation. By this time I am sure you have heard them all, or nearly all. I shall say only that inflation is inconsistent with what I think we all agree are the most important goals of economic policy. Very briefly, I would summarize these goals as follows: (1) a high level of employment; (2) the greatest possible productive efficiency; (3) a careful blend of equity and incentive in the distribution of income; and (4) an appropriate rate of economic growth.

The goal of a stable price level is, I believe, implicit in the four already stated: the four goals of policy are interdependent and consistent, but each one and all together are, in the long run, inconsistent with inflation, whether "creeping", "chronic" or "catastrophic".

In my presentation today I shall assume that we are in agreement about the dangers of inflation and I shall confine myself to the very important question: "What are we going to do about it?" More specifically, I shall address myself to three questions: (1) "Do we have the machinery to control inflation?", (2) "If so, do we have the skill and wisdom necessary to operate that machinery?", (3) "Granting both the preceding, do we have the will to use this power to put an end to the alternately creeping and surging inflation which has been characteristic of our economy since the Second World War?"

I

The answer to the first question is an unqualified "yes". We do have the machinery to prevent inflation. The Bank of Canada has complete control over the money supply, which it can alter at any time by effecting changes in

chartered bank cash reserves. With rare and insignificant exceptions, no inflation can take place without an increase in the money supply or in the velocity of circulation. Changes in velocity are limited and may in any case be overcome by appropriate changes in the money supply. For convenience we may call the joint effect of changes in money supply and in velocity the effective money supply. Monetary policy may be supplemented by fiscal policy, and fiscal policy becomes especially important as a stabilizer if at any time the problem should shift from inflation to recession and unemployment. There is still room for improvement in detail, but the machinery for preventing inflation now exists in effective form.

I would add only that, since the Bank of Canada works directly on chartered bank cash reserves, it affects non-bank lenders only indirectly. The result is that the machinery, though effective, may bring about the desired result by placing too great a relative burden on small borrowers, including both small business and the smaller municipalities, who are uniquely dependent on accommodation by the banks. But this does not mean that we lack effective machinery for controlling inflation, it means only that we need some improvements in the interest of justice to all groups in the community.

Another means to improvement in the machinery lies in effecting better communication between the monetary authorities, on one hand, and the money market and general public, on the other. I have in mind two, possibly inter-dependent, blocks which have appeared in recent years. First, the Bank of Canada's minimum lending rate, or "bankrate", has since November 1956 been floated at a fixed spread of .25 per cent above the ninety-one day Treasury Bill rate. I still maintain the position I took in my annual address to the shareholders of the bank in January 1958 that bankrate "should assume the more manly role of being a leader rather than create the impression of meekly following money market operations." Second, and this I think is not unrelated to the first, the Bank of Canada should take credit not only for increasing the money supply in recession,—a popular act, but also for restricting the money supply in periods of incipient or actual inflation,—an unpopular act. I believe full credit is due in both cases, and that the public should be taught to respect and approve the latter as well as the former. However, the floating bankrate combined with the reticence of the authorities has made this difficult, if not impossible.

Furthermore, monetary policy must be geared to fiscal policy, and here too there is room for improvement in the interest of the effectiveness of both. Fiscal policy, as I have said, is especially important as a stabilizer during recession. There is no point in increasing the money supply, and therefore bank lending power, if no one wants to borrow the additional funds. Under these conditions, fiscal policy may have to take the initiative through deficit financing. However, a deficit that involves a permanent rise in government spending makes inflation more difficult to control in the next phase of the cycle. The *size* of the government's budget, and not merely the gap between revenues and expenditures, may become the source of continued inflationary pressure. These considerations led me in 1953 and again in 1957 to urge tax reductions as the best means to the creation of a temporary deficit. Such a deficit is immediate, it encourages private rather than public spending, and it encourages that spending when it is needed. In contrast, government spending tends, as I said early this year, to be "ponderous and irreversible". The deficit may make an embarrassingly long stay, well into the period of recovery and the recurrence of inflationary pressure. Moreover, even when the deficit is covered, the budget itself is permanently increased. In other words, reliance on government spending may allow the ups and downs of the business cycle to determine in an arbitrary manner the relative importance of the government sector in our economic life.

Finally, much has been said in recent years about the so-called "cost-push" or "wage-push" type of inflation, and it is sometimes argued that "something new has been added" to our ancient problem. Of course, all are agreed that wages may rise without inflationary effects, provided average wage increases reflect average increases in productivity in the economy—with some reservations regarding labour's right to preempt the total increase to the exclusion of businessmen, capitalists and consumers. The problem of inflation arises when wage, or other cost increases, are not justified by increases in productivity.

As a mater of fact, even in this case, producers can pass on higher wage or other costs only if there is an accommodating increase in what we have called the effective money supply, or if the rise in price occurs at the expense of other producers—that is, if there is a corresponding fall in other prices.

In the first case, the cost push may be arrested by monetary policy. In the second, there is no increase in general prices, and hence no initial inflation. If the price-raising industry produces a key product such as steel, many other costs are affected. But again these increases can only be passed on if the effective money supply is allowed to increase. As I have said earlier, weaker industries may be hard hit in the adjustment process. However, this is a matter of social justice that calls for other remedies. In no way does it affect the basic proposition that the Bank of Canada, through its control of the money supply, provides the necessary machinery for preventing inflation.

II

I come now to my second question: "Do we have the skill and wisdom necessary to operate the machinery of inflation control?" The problem of effective control of inflation, and more generally of cyclical swings in business activity and employment, is not so much *what* to do with our present machinery to correct a deviation from stability, but *when* to do it, and *how much* of a correction to make. We know the general effect of reducing chartered bank cash reserves, or of holding cash reserves constant in the face of rising demand for loans. And similarly we know the effect of an increase in reserves, especially when reinforced by fiscal policy. What we don't know is precisely *when* to shift from an expansionist to a contractionist policy, or *vice-versa,* and how much expansion or contraction is required for a return to stability without overshooting the mark. These are the decisions that tax the skill and wisdom of our monetary authorities. The really difficult decisions come at a time like the present when there is still unemployment and excess capacity in the economy, at the same time that government fiscal requirements combine with general recovery to create an inflationary potential. To those in the Bank of Canada and in the Department of Finance, who must make these decisions, we can as in the past promise only our patience, our sympathy and our co-operation.

III

The most important question, however, is neither a matter of machinery nor of techniques and monetary wisdom, it is the question of our will to maintain stability through the power we now have in our hands.

Inflation can be contained and stability and long-run prosperity for our economy guaranteed only if the Government of Canada and the people of Canada are willing to back the kind of monetary and fiscal policy that can achieve these ends. In part, this is a problem of public education Superficially, inflation is likely to appear to be the easy way out. In fact, it is quite the opposite. Even from the narrow view of "full employment at any cost" the inflationary nostrum is at best a short-run "cure" that kills the patient in the long run. Labour leaders, economists, politicians and others who believe in full employment and growth through inflation should ponder the words of

Lewis Carroll's wise little Alice: "If you drink much from a bottle marked 'poison', it is almost certain to disagree with you sooner or later."

And "sooner or later", unless the electorate can be convinced of the danger of even a "moderate" dose of inflation, they will inevitably elect an inflation-minded government which could, through a perverse fiscal policy, offset and subvert the best efforts of the Bank of Canada to hold the price line. For reasons already stated, I believe this would be a disastrous policy: over time it would increase the incidence of unemployment, reduce productive efficiency, undermine equity and incentive in the distribution of income, and so prevent Canada from attaining an appropriate rate of economic growth. In other words, unless Canadians have the *collective will* to protect the value of their money, no amount of effective monetary machinery and technique, and no amount of wisdom on the part of the monetary authorities, can check the continued decline in our currency and the consequent failure of all our hopes for the prosperity and progress of the Canadian economy.

The CHAIRMAN: Now, honourable senators, Mr. Muir has gladly consented to answer any questions that honourable senators would like to ask. So the meeting is thrown open.

Senator LEONARD: Mr. Chairman, perhaps I might start the ball rolling by complimenting Mr. Muir on the very excellent presentation which he has made to us, and which, I am sure, we all appreciate. To make a present application of the points that he has brought out in this brief: there has not been for at least the last six months any increase in the money supply in Canada. Is not that correct?

Mr. MUIR: That is correct.

Senator LEONARD: And that is due to the operations of the Bank of Canada in settling the amount of the effective money supply. Would you care to say whether that is the kind of policy at the present time which we should cooperate with and support?

Mr. MUIR: Well, senator, that gets back to this point that we mentioned here: it is "when",—when is the exact moment to do it. In my judgment, if we continue a tight-money policy such as we now have, into a period when the economy as a whole really needs more to live on, and more nourishment, we would be making a mistake. If our recovery is genuine, and if there is expansion of a normal and thoroughly progressive nature going on, then, if we continue a very tight monetary policy too long, we shall stifle the child before it even gets breathing again. But, I say, it gets back to the point—and that is the very difficult thing involved with this whole matter—of when the decision should be made to do this and do that.

Senator EULER: Would you give an opinion as to when is the time to loosen up?

Mr. MUIR: It is pretty hard to give an opinion, but if business goes on the way it is going on, though you may be shocked at my saying this, I do not think the time is far off when it should loosen up.

Senator CROLL: Following that, Mr. Muir, you say "These are the decisions that tax the skill and wisdom of our monetary authorities." I am one of those who believes that not all the skill and wisdom is at the Bank of Canada, and nor at the Department of Finance; there is a good deal of skill and wisdom outside. Some of it you showed this morning in your brief. How do you bring your knowledge, skill and wisdom effectively to bear on decisions as important as this? Under our legislative setup the control of banking is in the Bank of Canada. We can holler like the devil and do anything we like, but actually there is a power there which we can't buck. They may listen, and they may not.

Senator BRUNT: Have they listened in the past?

Mr. MUIR: Well, they are not good listeners!

Senator CROLL: Let me just follow that up with one more question. We have areas in this country that are suffering a little depression even now. Other areas are booming. How do you control that situation in the form of a tight-money policy? How do you apply it here and there?

Mr. MUIR: Well, I don't think, senator, that tight money comes into it there. That is a part that I was trying to touch on lightly. There are certain things that become more social problems than they do monetary problems. You run into a certain area—I don't like the word "depressed" area.

Senator CROLL: "Distressed"?

Mr. MUIR: Distressed, or unfortunate. Well, it seems to me that that has to be analyzed in a different way, and that is where something other than monetary control has got to be brought into being. After all, subsidies are not unknown in this land of ours! I am very conscious of what you have mentioned. But it seems to me that that becomes a social problem that has to be dealt with on some other basis. Overall monetary control won't be one bit of good in that case. The Bank of Canada controls the overall supply of money and credit, but it cannot put it into effect in that place, or anywhere else; so it becomes a social rather than a monetary problem when there is one particularly afflicted area.

Senator SAVOIE: What would you suggest to control that problem?

Mr. MUIR: That is beyond me. I don't know. That is up to the Government.

Senator HAIG: I want to ask this question. In Canada we produce pulp wood, wheat, and cattle, and we want to sell these commodities in the world markets, but our cost of living makes it very difficult. For a producer of pulp, for instance, has got to pay his men so much per day; so must the producer of wheat, and the same with the manufacturer, and this increases production costs. How are we to compete with Germany, with Russia—if you like—when their costs of production of these articles are so much less than ours? I am not talking about questions of equality of wages or incomes; that is an issue which does not bother me; we can deal with it; but I want to know how we can sell our wheat in competition with Russian wheat, when Russian wheat starts to move, as it will do in a year or two, into the markets of the world. The United States is even now facing some such situation. What solution have you for the problem of the Canadian wheat grower? Or the producer of pulp? Does it mean that we must do something about the whole problem of production costs of these and other articles in Canada?

Mr. MUIR: I am a little confused with your question, senator. You started out to talk about natural products, like farm produce, and then I think you sort of switched, if I understood you correctly, to manufactured goods. What you are saying is, how can we sell our agricultural and forest products abroad? We do not have any competition in agricultural products from Germany. Perhaps the answer to your question is that a certain amount is being done and has been done for years. Take wheat. There is a very heavy subsidy on wheat.

Senator HAIG: You don't understand my question. Take wheat alone. The current price this year is $1.40, that is the initial price, plus what they make afterwards. The farmer says "I have got to get $1.40 for that wheat or I can't raise it." Now, Canada having set the price at $1.40, the prices of other products are affected, and we have to pay our workers in other industries a wage which enables them to buy bread when wheat is $1.40 a bushel. What is the solution? If the additional cost to the labouring man for his food, his

clothes and other requirements is, say, $10.00 a month, and he is paid accordingly, with the result that costs of production rise and affect our position in world markets, how are we going to get them down?

Mr. MUIR: Wheat is heavily subsidized now by the Government.

Senator HAIG: Only partly.

Mr. MUIR: No, no. There is quite a heavy element of subsidy involved. I am not quarrelling with it.

Senator HAIG: What I am saying is, we can't go on doing that. We can't reduce taxes; our costs our increasing; the Government is still paying for the storage of this wheat and for other services. Where is this process to stop?

Mr. MUIR: Go back to old Adam Smith and the law of supply and demand. You just don't subsidize it, and he doesn't grow it. He goes and gets another job, and our wheat production falls a way down. I don't think that is what we want, but that is the alternative, as I understand it. You let nature take its course, and he doesn't go on growing it.

Senator HAIG: He is growing it in the West, the same as he always did.

Mr. MUIR: I know he is, but, to answer your question, if he can't get a proper price what is he going to do? He is going to stop growing it.

Senator HAIG: Isn't that the picture all over? If the cost of producing goods goes up, if it costs more to make them than it does, say in Germany, clearly we can't compete with them in that situation.

Mr. MUIR: You are talking about our whole price structure and our standard of living.

Senator HAIG: I think you have got to.

Mr. MUIR: The only cure for Canada on that assumption, would be to reduce substantially our standard of living, to get the price of our products down to a point where they could be sold.

Senator ISNOR: Mr. Muir, I would like to direct your attention to a statement which you made in 1953, and again in 1957, coupled with this statement, that I believe at that time there was considerable expansion as far as private enterprise was concerned throughout Canada. I particularly draw your attention to the statement on page 6, that "such a deficit is immediate, it encourages private rather than public spending, and it encourages that spending where it is needed". Now, we have a directive from the Bank of Canada, issued in turn to the banks in the different districts in Canada, to restrict credit. Where are the private funds to come from to encourage this private spending that you speak of?

Mr. MUIR: What is important, senator, is that we tackle our recession problems in a different way, by reducing taxation and putting greater purchasing power in the hands of the individual, rather than have Government spending. As soon as the individual has more money to spend he is going to spend it, and your recovery is going to come that way, without an increase in governmental expenditure, and the effect is immediate.

Senator ISNOR: And your thought is that the Government should restrict public spending so as to permit private enterprise to expand?

Mr. MUIR: That is right, because once government expenditures get up, you never get them down; they are just going to keep going higher and higher. If you allow the recovery to be induced by the individual, by the private person, by his spending more money, the effect is immediate; he goes out that day and does it. The Government undertakes a project that takes weeks and months to plan, and maybe years to carry into fruition, and it goes on and on, and money is being spent on that development at a time, perhaps, when you are already in an inflationary year.

Senator ISNOR: How do you account for that directive, I think in 1946, which went out from the Bankers Association, no doubt at the request of the Bank of Canada, restricting credits to contractors to the extent of 60 per cent of their previous year's loans? That would have the opposite effect?

Mr. MUIR: Yes. I don't recall that directive.

Senator ISNOR: They changed it later.

Mr. MUIR: I do not recall such a directive.

Senator ISNOR: I might be wrong as to the exact year.

Mr. MUIR: And it would not come from the bank. The Bank of Canada would not do that. The Bank of Canada would restrict the overall money supply.

Senator ISNOR: Would the private banks, the chartered banks be doing it?

Mr. MUIR: No, they would not do it. Our money supply is determined for us by the Bank of Canada. I don't recall any such directive. In fact I doubt if there was any such thing.

Senator ISNOR: Well, some time, for satisfaction's sake, I will send you the date.

Senator McLEAN: Mr. Muir, my mind goes back to when I first entered banking, in 1902. From 1867 to 1902 the chartered banks controlled the economy. In the history of banking that I have read—and probably you have read more about it than I have—I have noted that there was never a period, up to the time the Bank of Canada came into existence, when the chartered banks did not control inflation in a very satisfactory manner. I remember when Mr. Fielding was Finance Minister, and Mr. Ross was his Deputy, and when Mr. Rhodes was Finance Minister; they controlled it up to the First World War; and then nobody could control inflation at that time, as it went wild in every country in the world. Chartered banks must have exercised a great deal of skill, and it looks to me, looking at the history of banking, that the chartered banks did a very good job during that period.

Mr. MUIR: I would agree with you, senator. I have been in this racket now for 52 years! But I think, to be fair, we must realize that in those years we had a very small economy and we had a very small labour force, and everything was handled on a sort of neighbourly basis. We were going through our adolescence. Then we got into new problems, and I think you have got to assume that the proof of the pudding came in the thirties, when everything blew to bits.

Senator McLEAN: That was deflation.

Mr. MUIR: Well the system, with the flexibility provided by the old Finance Act, was a very worthy thing, a very useful thing, but it was quite inadequate in the emergency with which we were faced. But to answer you, senator, we have got beyond the point where the banks can indefinitely meet these conditions by themselves. This would work where there was a lot of small transactions in small communities, and it was of real value, but I doubt if it could obtain in conditions such as now confront us.

Senator McLEAN: I agree with you that the Bank of Canada was really established to pull us out of deflation, and we had regional directors, and we thought at that time that the regional directors were going to have some say.

Mr. MUIR: If you say the banks in days gone by controlled inflation, they must have controlled deflation as well. I would say the answer to your question is that we grew up.

Senator McLEAN: I think that you will agree that the country consists of all the people and all the business which people produce from the land, the forests, and elsewhere, and year by year, if we progress, more money

must be put in circulation. As business progresses, we need more money; if people are producing more it makes for a better country and a richer country; so the money should be available.

The CHAIRMAN: Is the money there to be available?

Mr. MUIR: Oh yes, you can make money.

Senator McLEAN: If the money is needed for constructive growth, it should be there, and we should not be put in any strait jacket.

Senator CROLL: Would you care to comment on this statement, that labour costs consist of wages, efficiency of management, profit from the undertaking, and a premium on our dollar? What would you add to that?

Mr. MUIR: One more. You eliminated efficiency of labour. You said "wages, efficiency of management"—and what were the other two?

Senator CROLL: I said the profit level of the undertaking, and the premium on our dollar.

Mr. MUIR: The premium on the dollar, it has an effect, yes, but it does not enter into the matter so directly as the other three do. But you have left out the most important one, which is the efficiency of labour. I don't care how high wages are—I am a high-wage man—provided production goes up with them.

Senator CROLL: I know; but yesterday we sat there for three or four hours, listening to a very interesting brief from the Canadian Congress of Labour, in which they seemed statistically to prove that wages had not gone beyond production, or "productivity" was the term. Statistically they seemed to have proved that adequately. At least I thought so, and perhaps others did too. So there is efficiency of labour.

Mr. MUIR: I only mentioned that as one factor which you should have mentioned.

Senator CROLL: I agree, but this brief of theirs yesterday seemed to be rather conclusive. In many instances they gave statistics,—Dominion Government's statistics, not of their own making.

Mr. MUIR: Well, I have not seen the brief, senator. I can't say anything.

Senator CRERAR: I did not quite understand—if I may interpolate—that it was admitted that increases in wages were not a significant factor at all in producing inflation. There were other factors involved, but I think it is important to keep that in mind.

However, I have a few questions that I would like to ask Mr. Muir. It is not every day that we get a bank president here, Mr. Chairman. In the first place, Mr. Muir, what you are suggesting in your brief is a combination of three things to combat inflation, if I understood right. First, there must be wisdom in the administration by the Bank of Canada on monetary policy. Secondly, there must be courage on the part of the Government to face the possible consequences of a restrictive or a stiff monetary policy. Thirdly, there must be understanding, at least a sufficient degree of understanding in the public mind so that it will accept the rather disagreeable consequences, here and there, which may follow. Am I correct?

Mr. MUIR: You are absolutely correct, in my judgment.

Senator CRERAR: Well, that is the first one. The second question is this, and this is rather interesting. I do not know particularly what the policy of your bank is, but I have noticed recently, I think commencing about a year or more ago, the banks have entered what is known popularly as the small loans field, that is, endeavouring to compete with finance companies and other agencies of that kind in loaning their funds. Now it does seem to me that that is a little outside a bank's proper function, and that it creates an additional

pressure in purchasing power throughout the economy, and therefore operates against the controls which we consider are necessary. That is the second question.

The next question I want to ask is this. The Government recently sold, I believe, one year treasury bonds, or put out one year treasury notes with an effective yield of 5½ per cent. Now the banks, under the law, are restricted to 6 per cent; and the question I would like to get answered by Mr. Muir is, what effect will that have on the banks in the conduct of their business? Would they consider a 5½ per cent treasury bill, for instance, of one year's duration a more attractive place to invest their funds than with some merchant who might want credit, and to whom they can only charge 6 per cent? I hope I have not asked improper questions.

Mr. MUIR: You ask hot ones! Well, taking your second question first. As you recall, the Bank Act used to provide that the maximum rate of interest was 7 per cent; there was an implication that you might charge more, but under legal process of collection you could collect only 7 per cent. Now, in 1934, I think it was, in the Bank Act revision, some one said "Well, if there is that provision in it there must be a penalty", and the result now is that if a bank charges more than the specified rate it is fined and the individual manager is fined. In 1944 the rate of interest was reduced to 6 per cent. I think it was a great mistake to have in the Bank Act any limitation on the amount of interest that might be charged. Competition will settle that.

Now, to answer your other question, which I interpreted to mean that if the treasury bill rate continues to show the trend that it has in recent weeks we may very well reach a stage when we will have a treasury bill rate of 6 per cent or more. Well, as a bank, you can't sell out your clients or anyone else, but you reach a state of absurdity where quite obviously the policy of a bank ought to be to collect all its loans and invest the money in treasury bills. That is to say, there should not be a limit as to where you should go, because the fixed rate puts your whole monetary position in a straitjacket, and you could have the absurd position where banks would say, "Why take the risk of loaning to John Doe if I can get more from treasury bills than I can collect from him? The law says I can't get more than 6 per cent." We might very well reach a most unusual situation in this country where a treasury bill goes to the point where it is 6 per cent—

Senator CRERAR: Would you say it has reached that point?

Mr. MUIR: Not quite, but it is so slight that you are sort of hanging on by your finger nails.

Your other question was about this small loan thing, but it is a little bit more difficult to deal with. First of all, I think everyone in this room will realize that Canadian banks, since there were banks, have made small loans. They have made loans to the local people whom they knew, in various amounts. They have made thousands and thousands of these loans, and they were all made within the framework of the Bank Act. But as to this policy of trying to extend the system, quite frankly, I disagree with it most heartily; and the British banks have already run up against a rock that they did not quite see. They were much more active in this than we were. I have just come back to Canada on Monday, after speaking with them, and they explained that you have got to realize that this so-called small loan business exacts a much higher fee from the borrower than the old system did. It may be 9 per cent, it may be 10 per cent, it may be as high as 12 per cent. And British banks have found out that this is happening: John Doe has been getting loans of a few hundred pounds for the last 25 or 30 years. Here is Bill Smith, who has never borrowed before. Then John Doe comes in, and they don't like to say to him, "We are going to put you on a new deal and you will pay eight or

nine per cent for the same money you formerly got from us for six". In other words, this is a sort of gimmick. If you are dealing with a new borrower, who is just as loan-worthy and entitled to credit as the other man, under the new scheme you have created a class of sheep and a class of goats. So the banks over there are acting warily. Getting down to specific cases in this country, I say our bank is not engaged in it; and the answer is very simple: our lawyers say it is illegal, we would be violating the Bank Act. I understand that on the order paper there is notice of question asking if certain banks have got the authority of the Minister of Justice to exact these rates: I have in mind section 91 of the Bank Act.

Senator CROLL: Mr. Muir, just while you are at it—I think it may be interesting—I was around, and so were you, when that matter was discussed before the Banking Committee, as you recall, and I think the Bank of Commerce had been in that business since 1935. At that time the opinion expressed by the authorities in Ottawa here was that what they were doing was quite legal within the framework of the Bank Act.

Mr. MUIR: They had no authority to express that; that could only be expressed by the processes of law in the courts, and until you get a delinquent debtor who claims that this is in violation of the Bank Act you cannot get a ruling, and I don't think anyone can but the courts.

Senator CROLL: In any event, if I recall correctly, a ruling at that time was presented to the committee from another solicitor by the Bank of Commerce indicating that they thought it was legal, and I am certain that the department and the superintendent of the banks was of the same opinion, or we would have dealt with it.

Mr. MUIR: I do not think it is quite as positive as that.

Senator CROLL: Well, to deviate for one moment, you spoke about the sheep and the goats. At the present time you have the sheep and the goats. The sheep come to you for loans, and you give them at six per cent; the goats go to the finance company, and as you well know, pay an average of almost 30 per cent.

Mr. MUIR: I do not think it is as high as 30 per cent. These companies are operating as established, recognized entities within the framework of our company. The small loan companies have the authority by law to charge the rates that they do; but we do not, and it ought to be clarified.

Senator CROLL: I take it that it is clarified in that perhaps you are the only one of the banks that loan in this way?

Mr. MUIR: No.

Senator CROLL: The majority of the chartered banks of Canada are now in the small loan field?

Mr. MUIR: They are indeed in the small loan field, but the man who wants to borrow some money quickly pays a larger fee.

Senator CROLL: But, Mr. Muir, look what you are doing as a social benefit, and the other benefits that go to the Canadian people, in that you are gradually taking them out of the hands of the loan sharks. That is what we had in mind. We would rather have the banks deal with these people than the loan sharks.

Senator EULER: And expect them to do what is illegal.

Senator CROLL: Well, that is a matter for Mr. Muir, but I merely indicate that the majority of the chartered banks of Canada think it is legal. I am suggesting that what the banks do in the small loan field is of great advantage to the people of Canada.

Mr. MUIR: It helps them to get into debt.

The CHAIRMAN: Do you think it should be legalized?

Mr. Muir: If it is legal we shall know what we are doing.

Senator Campbell: Mr. Chairman, I think we are getting a little beyond the scope of the inquiry here. Mr. Muir, I gather from your brief that you feel that we have the machinery to control inflation in this country if we wish to do so. Now, in trying to solve a problem such as this we must try and find the principal factors responsible for the inflationary trend. Is it not so that during past periods in the history of inflationary trends in various countries it has been brought about by a demand for goods and a shortage of supply, and that is one of the principal factors?

Mr. Muir: That is one of the principal factors, but not the only one.

Senator Campbell: And immediately after the war that was a contributing factor to the inflationary trend in Canada, was it not?

Mr. Muir: I think the contributing factor in Canada after the war was a fear of a terrific let down in the economy following these hectic war years, and therefore, quite properly in that judgment, we stimulated everything to try to prevent that let down; whereas there was built up in this country since 1939 a tremendous demand on the part of the people, and the most difficult problem to contend with was to find a place to live. After the war we had families living with in-laws and relatives, and so forth, and these people needed housing, automobiles, bicycles, furniture, and so on; there was a terrific pent-up demand which had been accumulating over a period of five to six years that had to be satisfied.

Senator Campbell: But wasn't one of the principal factors that caused the rise that people were bidding for goods during that period? Certainly it was in the case of materials, cement, and a host of other materials.

Mr. Muir: Well, it was a contributing factor.

Senator Campbell: Now, if you come to the present period when you have a surplus of goods, what would you say are the principal factors contributing to the inflationary trend of the last few years?

Mr. Muir: Well, the inflationary trend of the past few years, of course, at first glance, looks to be unanswerable. In the last few years we have had what looks like somewhat of a recession, yet with rising prices. What I believe people don't realize generally is that as far as the actual employed labour force is concerned it was no less than it had been, or less than if it had been by only a small fraction. There were coming into play clauses of acceleration in labour contracts; there were increases in remuneration in all institutional life; there were many people working, and there was an easy money policy. So therefore you had all the elements to create a tremendous demand for goods. I think department store sales showed that after all there really was not a recession in consumer buying, and people were buying practically anything they could lay their hands on.

Senator Campbell: Actually there have been plenty of goods to buy in the past few years?

Mr. Muir: Yes, but they were all affected by taxes, cost increases of one kind or another, including wages and administration, and so on—all added into the price of the final mark-up, and that was lifting up prices.

Senator Campbell: But should you not be able to indicate a few factors that exist in our economy today which are the principal factors contributing to the inflationary trend?

Mr. Muir: Government spending; that is one.

Senator Campbell: You say government spending is one, and that is government spending which contrary to private spending is usually of a non-productive nature?

Mr. MUIR: If it has to be done it is very desirable at times, but if you have large government spending it is not producing anything.

Senator CAMPBELL: What about the social services?

Mr. MUIR: That creates purchasing power, too.

Senator CAMPBELL: But is that a real factor of inflationary influence, do you think?

Mr. MUIR: Well, it means many hundreds of millions of dollars in social security of one kind and another.

Senator CAMPBELL: Which is uncontrollable and unproductive?

Mr. MUIR: That is right; it is merely consuming. Unproductive is the word.

Senator CAMPBELL: What about increase in the size of the civil service?

Mr. MUIR: I do not know that I am competent to judge that.

Senator CAMPBELL: Well, it is a burden on our economy, is it not, of a non-productive nature?

Mr. MUIR: Well, someone has to determine whether it is excessive or not; if it is not excessive it is not a burden.

Senator CAMPBELL: What effect has credit buying on the inflationary trend?

Mr. MUIR: Traditionally, historically, notoriously, credit buying always stimulates it.

Senator CAMPBELL: Should these various factors be controlled in some way, in your opinion, if we are going to attempt to control inflation rather than attempting to control it by a tight money policy?

Mr. MUIR: Well, I think the Bank of Canada's annual report states this case very clearly. They interpret their duty to be the control of the overall money supply irrespective of who is the user of it; and if there is to be any other control, as I interpret it, it is an indication that that control should come from some other source. The monetary control is not absolute in the short run, mind you, although it is eventually. If the central bank maintains a certain monetary policy long enough, either up or down, it will eventually bite right into the heart of the thing. But as of now it directly controls only the chartered banks.

Senator CAMPBELL: That was the point I was getting to.

Mr. MUIR: And there are a great many other institutions in another line of business who are also in the business of dispensing credit and money.

Senator CAMPBELL: That is what I was getting to, whether you have got to go beyond the monetary policy and try to control other factors in our policy.

Mr. MUIR: It still would be monetary policy unless you are going to have Governmental action where you are going to have controls.

Senator CAMPBELL: Well, we do not want that.

Senator REID: Why is there a lack of confidence by the public lately in buying Government bonds? Is it due, do you think, to the fear of conditions in Canada generally or is it because we are now increasing our national debt instead of reducing it? Are these factors in the people losing confidence in Government bonds?

Mr. MUIR: I do not find such a lack of confidence. This lack of desire to purchase Government bonds is not confined to Canada. People do not want a fixed-income security when they are afraid of inflation. Now, the rise in interest rates that has taken place in the last year, of course, has made the holding of certain Government bonds unattractive in the light of rates being paid today.

Senator REID: On Page 7 of your brief you say the problem of inflation arises when wages or other cost increases are not justified by increases in productivity. I was wondering if you had made any research on that, or if you had any data on it? We had a delegation from the labour unions before us yesterday and they claimed that wages and productivity have almost gone together.

Mr. MUIR: I have not got these facts but they probably could be acquired. I would be surprised to think, if they were in the brief, they could be refuted.

Senator REID: A lot of information is given out by the Dominion Bureau of Statistics and you cannot by cold figures come to a conclusive, proper and straightforward opinion For instance, they show a rise in wages and a rise in total production but nothing has been said about the increased labour force. Now, this increased labour force must have done a lot to increase production.

Mr. MUIR: I would assume that the brief has taken that into consideration. I have no knowledge of what is set out in it except what I read in the newspaper this morning, and I got the opinion that the point they were making is that the thing that caused inflation was the increase in the cost of services rather than an increase in the cost of goods. I think that is the point they were trying to make.

The CHAIRMAN: That is correct, Mr. Muir.

Senator REID: I will just leave this point with the committee. It seems to me that there are a great many producers in this country who are not doing more than they can go by with in the way of production. Take for instance carpenters, and bricklayers. The wages of these tradesmen has been increased greatly and yet the bricklayer is not producing more than he did ten years ago And in spite of that we hear a lot of talk about wages keeping up with productivity.

Mr. MUIR: As I said initially, I have no data on the matter. No doubt the source of their data can be ascertained and I would be inclined to think they would not make a direct statement of that nature if it were not so. But, I have not the data.

Senator CRERAR: Mr. Chairman, I was going to pursue a little further the question that Senator Campbell brought up this morning, about small loans, I am not going to ask Mr. Muir to comment on this unless he wishes to do so, but it does seem to me that the banks in making these loans are departing from their essential function which is to finance the commerce of the country. Now, if the banks get into the small loans business that creates another purchasing pressure. And one other thing, and this relates to giving the banks authority to go into the mortgage business. Personally, I was opposed to giving them that authority I think I am correct in saying that today the banks overall have about $800 million invested in this type of security, and that to my mind is not the primary function of the banks at all. By allowing the banks to enter that field we created an additional inflationary pressure through increasing the building of homes. The great difficulty with the Canadian people, it seems to me, is that we want to climb to heaven in one step instead of advancing by a series of steps, and in my judgment that just cannot be done. Now, Mr. Chairman, I am not asking Mr. Muir to comment on this if he does not wish to.

Senator McLEAN: As I remember, the banks did not ask for it.

Mr. MUIR: No, the banks did not ask for it all. The proposal was made to the banks. Housing, after all, is a very, very important thing in the life of a people and anything that can legitimately be done to encourage a person to own his home does in the long run make him a better citizen, he is going to be less of a Red and more of a stable citizen. The thing that was wrong with

the banks being induced to go into this business, and we went into it extensively, was that when money got scarce, particularly in 1955, the banks all suffered very severely in raising cash The overall principle I do not object to as far as we are concerned if the need for the houses is a legitimate one. Of course right now you do not make any money on that type of security because the 6 per cent rate is not remunerative. In other words, if you can get 6 per cent on treasury bills, why go into a 20-year mortgage!

Senator DUPUIS: Mr. Chairman, I would like to have Mr. Muir's comment on one point. May I say in passing that his remarks are very illuminating.

I should like to know whether the new policy adopted by retail stores of giving more credit to consumers, and encouraging consumers to use yellow stamps, is not another cause of inflation?

Mr. MUIR: I suppose, senator, it is done to meet competition. But the more one buys on credit, the greater the tendency towards inflation. After all, the credit policy of department stores is a matter over which there is no actual control in the monetary sense. But I think there is nothing new in department stores giving credit; the incidence, however, has grown with the tremendous demand. The more you get for a smaller down payment, the greater the inflationary effect.

Senator DUPUIS: In the long run the retail stores have to get more money to stand the strain of the high credit. Does that not reach our banking system?

Mr. MUIR: Some of it reaches the banking system, but you must remember that some of the department stores do a lot of public financing through the sale of bonds, debentures, preferred stock and so on. They do get a certain proportion of their requirements for overall needs from the banks.

Senator HORNER: Fly now and pay later!

Senator CONNOLLY (*Ottawa West*): Mr. Chairman, I would like to revert to a point made by the witness in response to a question asked by Senator Croll in connection with the general problem of overall control of credit.

There is no problem, I take it, for the federal Government to impose restrictions and control upon banks because of the provisions of the Bank Act. But when we come to institutions like loan and trust companies, mortgage and insurance companies and other institutions that can extend credit, there is a problem as to how any kind of control can be imposed in view of our setup in this country as a federal organization. True, banks and banking are the subject matter for federal legislation, but some of these other institutions may not be amenable to federal control. That is my first question.

The second question I would put is this: suppose it were possible to have an overall control of all the media of credit in this country, how would business react to this kind of control being imposed by the federal authorities from time to time? We might very well be put into a situation a lot worse than the welfare state.

Mr. MUIR: Well, of course the Government does not control us. Monetary control is exercised through the Bank of Canada, not through the Government.

Senator CONNOLLY (*Ottawa West*): That is right.

Mr. MUIR: You mention imposing other controls. I assume you mean conditions that would regulate the terms of purchase, down payment and so on. I may be misinformed, but I don't think we have any such power; I think it all disappeared some time after the war.

Senator CONNOLLY (*Ottawa West*): That is true in peace time.

Mr. MUIR: Yes.

Senator HAYDEN: The provincial authority could do that.

Mr. MUIR: No; I had in mind the Wartime Prices and Trade Board—

Senator HAYDEN: I say at this time the provincial authority could do it, under property and civil rights in the province.

Mr. MUIR: Under property and civil rights; but the provincial authority has no control over banks.

Senator HAYDEN: That is true. I am talking about instalment purchasing and matters of that kind. We could get some provincial control of it.

Mr. MUIR: I think we would have chaos.

Senator CONNOLLY (*Ottawa West*): Precisely. That is the point I am trying to make. The possibility of getting an all-over control of other sources of credit, short of the War Measures Act or the Emergency Powers Act, just does not seem to exist in peace time.

Mr. MUIR: I take it you mean monetary control. It would have to come by some means through the Bank of Canada. Banking control does come if the Bank of Canada maintains a certain policy long enough; it ultimately plows back these things, but it takes a long time.

Senator CROLL: Mr. Muir, I think you made one statement in response to a question by Senator Campbell, in which I may have misunderstood you. You said that social services were "unproductive".

Mr. MUIR: I may have misunderstood Senator Campbell, but I thought he meant what I meant, that they were unproductive in the sense that they did not produce goods and merchandise.

Senator CAMPBELL: That is correct.

Mr. MUIR: Please don't misunderstand me: I am very much for social services. I understood Senator Campbell to mean that they did not produce boots, shoes, shirts and so on.

Senator CROLL: Because I knew your attitude in that respect, and because I wanted the record to do you no injustice, I asked the question.

Mr. MUIR: Thank you very much.

Senator CROLL: Let me put this to you: yesterday we had a very knowledgeable, capable and understanding man appear before the committee, representing the Trades and Labour Congress—as a matter of fact, it was Eugene Forsey—of whom I asked this question: which would he regard as of greater danger, the possibility of inflation or unemployment? Mr. Forsey's answer was that in his view unemployment was a far greater danger facing this country than inflation.

Mr. MUIR: That may be, but eventually inflation produces unemployment, and far worse unemployment than otherwise might occur.

Senator CROLL: The kind of inflation we are thinking about in this country, as expressed by one of the investment dealers yesterday, was about 3 per cent, and it did not worry them too much. The normal inflation of 3 per cent did not seem to concern them. That is the kind of inflation we are talking about.

Mr. MUIR: Well, if you have 3 per cent today, 3 per cent next week, and 3 per cent next year . . .

Senator CROLL: I mean 3 per cent annually.

Mr. MUIR: If you multiply 3 by 15, you have 150, and you are 50 per cent in the hole. You have lost 50 per cent.

Senator CROLL: Mr. Muir, that is the sort of inflation we have had here since the war, an average of about 3 per cent.

Mr. MUIR: I do not have the actual statistics.

Senator CRERAR: It would be more than that on the average.

Mr. MUIR: It would be more than that. I don't advocate continued inflation.

Senator CROLL: They don't advocate it either.

Mr. MUIR: Whether creeping, catastrophic, or otherwise.

Senator BURCHILL: Mr. Chairman, may I revert to a question Senator Croll put in the earlier part of the discussion? Mr. Muir stressed in his brief the importance of when to correct the deviation, how much to correct it, and so on, as being a matter of very great importance. The decisions, I take it, at the present time are made by the Bank of Canada, and by that bank alone. It seems to me, as Senator Croll indicated, we have a lot of wisdom outside the Bank of Canada, and we have a lot of people on the firing line such as yourself.

Mr. MUIR: Yes, but too many cooks spoil the broth.

Senator BURCHILL: Is there no way in which we can mobilize the collective wisdom of our banking fraternity?

Mr. MUIR: As I said, too many cooks spoil the broth. A certain responsibility arises within the banking industry, and you have to delegate that authority to some specific people.

Senator BURCHILL: The direct responsibility, I agree, but what about counsel and advice?

Mr. MUIR: Well, not many people like advice!

Senator FRASER: There are more and more people who want to do less and less for more and more. In other words—and I am speaking particularly of the farmers—we are getting away from the application of labour and material to production. There are too many people in Canada who do not want to apply labour to production, and they use all means possible for getting more and more for less and less.

Mr. MUIR: That is a very popular concept, and maybe we are all a little bit guilty.

Senator McLEAN: I would like to mention the Housing Bill. We had that before us for a month, and I do not remember any executive of the chartered banks saying anything in favour of it. They accepted it, and it had the green light from the Bank of Canada, but after a year and a half the Bank of Canada interfered with the chartered banks and put the brakes on, and nearly ruined the Housing Bill.

Mr. MUIR: Well, that was a very bitter pill to swallow. We accepted it as a whole, but it was not asked for, and the banks did suffer. There is no question about that.

Senator McLEAN: But you have a charter from Parliament which is just as sacred as the Bank of Canada's charter, and you have your rights within that charter in just the same way as the Bank of Canada has. If you read the preamble to the legislation setting up the Bank of Canada you will see how it is set up, and you will see that the chartered banks have the right to stand on the rights that Parliament has given them.

Mr. MUIR: If there is any further scheme advanced then in so far as I am concerned it shall not be accepted until we are assured of safeguards,—that we will not have the pants beaten off us through no fault of our own.

The CHAIRMAN: If there are no other questions, honourable senators, I would take this opportunity of congratulating Mr. Muir on his very fine brief and thanking him on behalf of the Finance Committee, and myself personally.

Mr. MUIR: Thank you very much.

With your permission Mr. Chairman, I shall leave with you a brief appendix containing background analytical material which I believe may be of interest to the honourable senators in the light of my remarks this morning.

APPENDIX

Analytical Background Material

Inflation in Relation to Four Widely Accepted Goals of Policy

1. *Inflation and Employment:*

It is a tempting proposition, all too widely accepted, that some degree of inflation is essential to a high level of employment. It is of course true in the short run that easy money and government deficits can force unemployment down to a minimum at which point further increases in money incomes result not in increased employment but merely in higher wages and prices. This results in an unduly tight labour market, intense competition for the available supply of labour and, provided easy money continues, further hikes in wages and prices. Some would say, we have found the perfect nostrum: maximum employment can be continuously maintained through the continuous injection of money into the economic system, that is, through continuous, but presumably mild, inflation.

Unfortunately, this nostrum like some of our new wonder drugs, has unexpected "side effects" which, in this case are far more destructive than the disease they are supposed to cure. In fact, in the long run they aggravate the disease itself. Inflation actually increases the average rate of unemployment over time.

First, rising prices and the expectation of further increases lead consumers to over-buy durable goods such as automobiles, largely financed by instalment credit. One or two big years is followed by a slump in a major industry, as consumers exhaust both their needs and their borrowing capacity. The result, of course, is a rise in unemployment.

Second, the same conditions and expectations lead businessmen to over-buy, this time in form of excessive inventory accumulation. Again production spurts for a time but inevitably the speculators exhaust their funds and their credit, and must unload. This means sales, not out of current production, but out of past production, and again a rise in unemployment.

All three recessions since the second world war have been accompanied by large-scale inventory liquidation. In this respect the 1957-58 recession was the most spectacular of all and, naturally enough, unemployment has been correspondingly severe both in recession and in the long months of slow and painful recovery.

Third, expectation of higher costs leads business firms to over-expand their plant and equipment. As in 1955-57, a private investment boom results. Inevitably, a breathing spell must accompany the completion of the major expansion programmes. The result of course is a slump in the capital goods industries and we get unemployment. In this respect, again, 1955-57 boom and the 1957-58 recession provide the best example since the war: a further reason for the severe and protracted unemployment of the latest recession and recovery period.

2. *Inflation and Productive Efficiency:*

Inflation not only raises the general price level but distorts the price structure as well. In other words, it interferes with the normal operation of the price system in its allocation of natural and human resources in accordance with demand. It interferes, that is, with the process of producing the right amounts of the right goods at the right prices.

In a generally inflationary environment, all industries are not equally capable of passing on rising labour, raw material and capital costs to their customers. An especially good example is the bulk of the export trade. We cannot float off our inflated costs on the export market except by government give-away devices. These of course are becoming more popular, but in an inflationary environment they may not only shore up inflationary positions abroad, but increase inflationary pressure at home. As the *Economist* once put it: a "kind fairy from without conveniently takes care of trade deficits and the act of charity inflates the kind fairy in her turn. We have in fact passed from the Welfare State to the Welfare World." (Aug. 18, 1951, p. 384.)

In the domestic market the effect is to allocate scarce resources to industries and firms best able to pass on their rising costs. As a result the most competitive sectors of the economy lose out to those which, sheltered by high tariffs or other defences against competition, are enabled to improve their position at the expense of others less well endowed. This distortion aggravates the problems faced by our exporters, small farmers, and small businesses in general throughout the country. Because the banking system is their major source of credit, these firms are also among those hardest hit by any attempt by the monetary authorities to restrict credit and halt the inflaionary trend. (Incidentally, in the present credit restriction, the banks have exempted small loans to individual and small business borrowers.)

These are only a few examples of the way in which inflation can distort our price structure, arbitrarily allocate scarce resources, and reduce our overall productive efficiency far below the level which our endowment of resources and technique could otherwise attain.

3. *Inflation, Equity, and Incentive:*

It has been argued that the state should, through progressive income and inheritance taxes and various welfare expenditures, bring about equality in the distribution of income and wealth. Greater equality has indeed resulted, not only through taxes and expenditures as such, but to some extent through inflation. However, greater equality may also have an effect upon the total amount of income and wealth to be shared and this is especially true of equality, or attempts to achieve equality, through inflation. Talent and skill must be rewarded, or equality will mean only that everyone gets an equal slice of a smaller pie. Indeed the fact that, through economic growth, all groups are today much better off than, say, a half century ago, has greatly reduced the clamour for "aquality" in the distribution of income.

However, inflation willy-nilly affects the distribution of income in such a way as distort the allocation of human effort and talent and thereby to reduce productivity.

Like business firms, wage and salary earners also differ in their ability to pass on price increases in an inflationary environment. Those least able to do so seem to be in the academic profession where, through teaching and research, dedicated men and women are providing both the material and the cultural prerequisites for further economic and social progress. Nevertheless, all who work with hand and brain are sooner or later, and in varying degree, adversely affected by inflation. This is unjust, but less so than the plight of pensioners and other recipients of fixed incomes. However, for active workers, sheer injustice may be less important than the effect on productive efficiency. The real rewards in an inflationary environment go to those who are successful speculators in stocks, commodities or real estate. In normal times speculation has an important function in stabilizing markets. What one wins another loses, and there are no net gains for speculators as a whole. But when inflation exists and is expected to continue, speculators as a whole can make net gains at the

expense of the rest of the community. Pressed between high taxes and high prices, the community's resources of talent and skill are turned more and more towards devising new and ingenious hedges against inflation, and hence away from productive activity. This diversion from productive activity to speculation is a threat not only to the community's economic welfare in the narrower sense but, in our uncertain world, it is a threat to national survival itself.

4. *Inflation and Economic Growth:*

If, as some argue, inflation is necessary to maintain employment, how much greater must be the need for the inflationary whip to ensure long-run economic growth! However, just as an inflation reduces the average level of employment over time, so does it reduce the long-term average rate of economic growth, and for much the same reasons. In Canada economic growth depends on innovation, productive efficiency and population. Aside from short-term effects, inflation is only a drag. In fact, over the 33 year period from 1867 to 1900 we had an annual average rate of growth *in volume or "real" terms* of almost 3 per cent, while the consumer price index declined 14 per cent. In the period 1920-29 we had an annual average rate of growth *in real terms* of 3½ per cent, but the consumer sumer price index declined 16.9 per cent. (Almost completely stable prices prevailed from 1922-1929). In the short-lived boom of 1955-57, we had an annual average rate of growth *in real terms* of 3½ per cent, but the consumer price index rose 4.7 per cent and the *apparent* annual rate of growth, including a composite of consumer and other price increases, was 7½ per cent.

In real terms, therefore, inflation is not necessarily associated with periods of economic growth. Moreover, when we consider that *in real terms* our Gross National Product during recession and recovery showed little or no change until the first quarter of 1959, while our industrial production index has only recently approached its boom-time peak, we can see that it will take us a long time to recover lost ground and get back on the pre-recession trend of growth.

A policy of creeping inflation induces speculation as an inflation hedge rather than the channelling of savings into productive investment, which is the prime pre-requisite of healthy long-term economic growth. This alone is enough to disqualify creeping inflation as a means to growth. When we add to this the periodic booms and recessions that accompany creeping inflation and disrupt all the other growth factors in the economy, we must surely conclude that, in this, as in all the preceding cases, inflation, even so-called creeping inflation, can only lead to disaster.

The CHAIRMAN: Honourable senators, the brief that follows will be presented by Mr. Gibson, the General Manager of the Bank of Nova Scotia. As we have only a certain number of copies it will be impossible to distribute them among honourable senators present, so I will ask you to follow the brief as it is read by Mr. Gibson.

Senator WOODROW: Will we get a copy later?

The CHAIRMAN: The Minutes of Hansard will contain it.

Mr. J. DOUGLAS GIBSON, General Manager, the Bank of Nova Scotia: Mr. Chairman and honourable senators, like Mr. Muir, I do not want to burden you with a lot of bankground material, of which I am sure you have had more than enough, yet I cannot help but feel that if I am to deal with the subject adequately I have to give you my own rough assessment of the economic picture, so here goes:

The first point that I should like to make is that the present concern about inflation arises more from a fear of what may happen than from the existing economic environment. The physical facts of the present economic scene in

Canada are not in themselves suggestive of inflation. Despite a considerable recovery in business, there is still unemployment and substantial unused capacity. A number of major industries are still working well below capacity, for example, the pulp and paper and aluminum industries, and in most lines there are ample facilities available to increase production. We are quite definitely not in the position where there are too many dollars chasing too few goods. We have plenty of goods and plenty of capacity to produce more.

Nor do we appear to be approaching a situation in which there will be too few goods. It is true that business has shown significant improvement and it seems likely that recovery will continue during the present year, both here and in the United States. The maintenance of a relatively high level of capital expenditure here in Canada, combined with the rising trend of consumer and government spending, appear to assure an appreciable rise in the national production and income. But, recognizing this, there is still little prospect that the recovery will go so far as to fully take up the slack in 1959. That would require an increase in the national production this year of the order of 12% and this seems quite unlikely until there has been more of a revival in the world demand for basic commodities.

This leads to the further point that the economic picture in the world at large is not strongly suggestive of inflation, or, to put it more accurately, is less suggestive of inflation than during most of the period since the war. In the last couple of years, for the first time since the end of the war, there have been ample supplies and more than adequate productive capacity of almost all the major industrial raw materials and foodstuffs. The recovery of business in the United States has still a considerable way to go before any general shortages are likely to appear and, for the time being at least, there remains a good deal of excess capacity. And in Europe, the strong upward trend of recent years has been checked and there appears to be ample capacity to meet demands.

There is a good deal to suggest, indeed, that the rate of economic expansion may be somewhat less rapid in the next several years than in the past decade. The job of reconstruction has been done; world markets both for industrial materials and manufactures have become much more competitive; and demands are no longer centered on North America as they were when industrial materials and capital equipment were scarce and urgently needed. This may mean that the impetus toward expansion on this continent may be less strong than has been the case for some years.

These comments might be taken to suggest that inflation is not much of a threat at the present time, or, in any case, less of a threat than during most of the years since the war. And yet it is perfectly clear that inflation is a matter of major concern—of more widespread concern than at any time in the postwar period. Hardly a day passes without some serious pronouncement on the subject. The study of your Committee is itself a striking indication of the widespread interest in inflation. Inflation has replaced recession as the major topic of business concern on this continent. Fear of inflation is evident, not only in the continuous talk about it, but more concretely in the weakness of the bond market and in the strength of the stock market. Its influence on the bond market and on interest rates is obviously of major proportions, and comparisons of yields beween bonds and stocks suggest a preference for stocks and a lack of interest in bonds seldom approached in the past.

How far the fear of inflation is reflected in other business decisions is not clearly apparent. But its influence is probably very considerable. Businessmen are more likely to rebuild or build up their stocks of goods if they think the general atmosphere is inflationary. Fear of inflation, though often not the leading reason for a decision to invest or to purchase, may be enough to swing the balance when the pros and cons are closely matched. There can be

no doubt that widespread expectations of inflation keep costs and prices higher than they otherwise would be. Such expectations encourage efforts to maintain and increase prices and wages and discourage resistance on the part of business and consumers to higher costs.

Why in the light of the broad economic picture referred to earlier should the business community and indeed many other citizens be so concerned about inflation? Perhaps one of the reasons is that prices and costs did not decline—or were very slow to decline—during the recent recession. Basic commodity prices did decline to some extent but prices of manufactures fell very little and consumer prices went on increasing until the end of last year when they at last showed just a little weakness. Wage rates, though not advancing at the pace of 1955 to 1957, showed a further increase, and other business costs, including equipment and services, more often increased than declined. Labour unions argued that one of the most effective ways to cope with the recession was to increase wages so people would be able to buy more. Many businessmen replied that such a process would price their goods out of the market, particularly if it is an export market or a highly competitive one. But other businesses have been less inclined to resist and have indeed sustained the upward tendency in costs and prices by passing on wage and other cost increases to the consumer.

Undoubtedly, however, the strongest reason for new concern about inflation has been the development of large government deficits, both budgetary and cash, in this country as well as in the United States. Canada's fiscal response to the recession was prompt and substantial—to a degree that might warm the hearts of the most earnest advocates of anti-recession government spending, though it is only fair to add that the process has been strongly aided by the timing of two elections. For the past fiscal year the budget deficit is placed at over $600 millions and the cash deficit at about $1,250 millions. From an economic point of view the cash reficit, i.e. the amount by which government payments and advances, whether of a current or capital nature, exceed government revenues, is the important figure, and the $1,250 millions for the fiscal year 1958-59 compares with a cash deficit of only $300 millions in the preceding year. What is most notable is that the great bulk of this cash deficit was deliberate—the result of raising expenditures for pensions, unemployment insurance, hospital insurance, payments to the provinces, aid to grain growers, pay to civil servants, Colombo Plan aid, of making loans for housing in particular, and of reducing taxes. Only about one-fifth of the increase in the cash deficit is the result of the decline in tax revenues which automatically was associated with the recession.

It was certainly appropriate to run a deficit in the past fiscal year and in my opinion a sizeable one. In the Spring of 1958 the economic portents were not favourable and the promptness of the recovery took most of the experts by surprise. However, the cash deficit was a large one and the increased expenditures which account for half of it are not readily conducive to substantial or early reduction. Inded, many of the increases appear to be permanent, such as those in pensions and pay, and some are rapidly rising in character such as the hospital insurance payments. The size and character of the deficit aroused concern in the breasts of many that it would be years before the national budget could be balanced. Meanwhile, with business recovering, it was feared that the large deficit would act as an engine of inflation forcing dangerous increases in the supply of money and credit.

It is a fact that the cash deficit, combined with growing fears of inflation, did bring about a larger increase in the money supply than was probably desirable in the circumstances. From the end of 1957 until September, 1958, the total of money and bank deposits—the money supply—rose by 12½%, though since then it has levelled out. The extent of this increase emphasized

the unwillingness of Canadians like Americans to invest in fixed interest-bearing securities in sufficient amount, and specifically their unwillingness to take up the government deficit even at sharply rising rates of interest. Since the public were not interested in buying the government bonds needed to meet the deficit, the central bank expanded the credit base so that the banking system could take them up. And this is what happened up until late last year when the public began to show more interest in the very favourable yields available and in the tax advantages of low coupon bonds, and when businesses found themselves with more liquid funds available to invest.

The recent budget has also relieved the upward pressure on the money supply and has worked to moderate inflationary fears. The projected budget deficit of just under $400 millions and the cash deficit put at $850 millions represent a marked improvement over last year's figures and the results to date suggest that the actual figures may be materially better than the estimates. The road back to balanced government accounts does not appear as long and as difficult as it did only six months ago. But at the same time, the deficiency is still very substantial and if business continues to improve at the recent rate it may not be long before a government surplus will be needed to combat inflationary tendencies.

Even such a brief analysis as this makes it all too evident why there is so much confusion about this question of inflation. There are, in fact, a variety of conflicting influences, some factual and measurable, and others intangible and psychological, but important nevertheless. As I have emphasized, the general economic background is not particularly suggestive of inflation and yet there is a widespread fear of inflation based to a large extent on the increased influence of produced groups in our society, and on the prompt and vigorous measures of expansion pursued by governments to combat recession. Confidence in the value of money has reached a low ebb at a time when there is still a significant amount of unemployment.

This is a definitely undesirable situation. In the first place, there is the obvious danger that the value of money will decline further—a danger which is increased in the short run by the belief of a much increased number of people that money will in fact lose value. There is the related danger of getting into a mesh of controls in an effort to prevent undue increases in prices and to prevent the additional money needed to finance government deficits from feeding the inflationary fires. And last but not least, there is the danger that fear of inflation will set the groundwork for a serious recession. Sooner or later stock prices may get so high in relation to corporate earnings and to bond prices that a marked reaction may set in. People may suddenly realize that things are getting out of proportion. This is all the more likely if fear of inflation leads to ill-considered capital investment in some directions or to unnecessary accumulation of inventories.

The basic facts of economic life do not change beyond recognition in a decade, though fashions in thinking may well do so. From the early postwar period until a couple of years ago we were still greatly concerned about the dangers of a serious recession—a line of thought which was in no small measure influenced by the great depression of the 'thirties. This questioning attitude about continuing prosperity on the part of the business community was on the whole a healthy state of affairs. It worked to prevent things from getting out of hand—it checked speculative excesses. In the last year or so, the atmosphere has changed and the emphasis is on permanent inflation. This is supposed to be the kind of environment in which we are living and, to the unsophisticated, it may appear to suggest a steady but not violent rise in prices and a more or less continuous succession of prosperous times. This is a rationalization of postwar experience, and not a very accurate one at that. It makes a good deal of sense so long as it is not widely accepted, so long as the skepticism to which I have

referred prevails. But as soon as it is widely accepted it ceases to make sense, since when people are ready to act upon such an expectation they will hasten and accentuate its appearance and the process of rising prices will cease to be gradual and steady.

If we are in for long-range inflation it will not in my opinion, be steady. The more people believe in inflation the more violent will be the upswing in prices and the more drastic the following correction. It is even doubtful if the theory of long-range inflation holds water because the violence of the ups and downs might very well convince society to take corrective steps. But the point I want to emphasize is that fear of inflation increases the risk of a subsequent and substantial recession or depression. Fear of inflation may promote maladjustment in the economic machinery and bring on a recession.

Economic policy in most of the western countries has since the 'thirties put first emphasis on maintaining a high level of employment. Where this objective has appeared to conflict with prudent financial and fiscal policies, financial and fiscal policies have usually been adjusted. There is no doubt that a high level of employment must be a prime objective of economic policy. But the experience of the postwar period, including the recent recession and present recovery, suggests that we have probably been too concerned about the risk of depression and not sufficiently impressed with the strength and vitality of our economic system. The record suggests that we should have put more emphasis on defending the value of money. In any case, we have now reached the position when it is becoming apparent that inflation is a threat rather than an aid to employment. The pursuit of inflationary policies could, as I have stressed earlier, lay the groundwork for a serious recession. And the prospect of increasing ups and downs in business to which the developing fear of inflation gives rise is anything but favourable from the standpoint of employment.

In this environment of concern about inflation and continued business recovery, it seems clear that the first priority should be given to a further early reducton of the Federal Government's net contribution to the national expenditure, i.e. its cash deficit. To some extent this may be achieved by using less than the amount provided for advances for housing. It will also be assisted by the improvement in business and the relative upturn in government revenues. But if a balance is to be achieved in the reasonably near future, if the government is to put itself in a position where it could if needed play an active part in combatting inflation by running a surplus, then expenditures will have to be reduced, or taxes increased, or both.

From the standpoint of meeting the underlying concern about inflation it is important that the budget be balanced so far as possible by reducing expenditures rather than by increasing taxes. Rates of taxation are already so high and producer interests are organized to such a degree that a vigorous and fairly effective effort to pass on higher taxes may be expected. In circumstances of improving business activity an increase in taxes is almost certain to find a significant reflection in prices. This is not to say that higher taxes are ineffective in combatting inflation but it is to say that their effectiveness decreases when tax rates are high and that a reduction in spending is a distinctly better method, dollar for dollar.

It is often said that it is unrealistic to suggest a reduction in government spending. But if it is, one should accept less effective and probably even less popular methods of combatting inflation, namely higher taxes. Or one should be prepared to accept inflation. As a minimum objective, it should be possible to start by determining not to permit any further increase in the total of government spending and meanwhile to examine thoroughly the possibilities of economies mainly, I suspect, through assessing the importance and usefulness of the functions performed by government departments, by improvements in organization and by reducing overlapping.

I should emphasize that I believe cyclical budgetting is an essential tool in fighting inflation. If we do not want to tie our currencies to gold and accept the impersonal and sometimes crude discipline of such an international standard—and to my mind it is perfectly clear that we do not—then we should be prepared to exercise some discipline ourselves. And this involves running surpluses in good times as well as running deficits in recessions.

I have not said much about monetary policy because a large cash deficit on the part of the federal government can force, and in fact has forced, increases in the money supply. It is, of course, fundamental that the money supply should be kept in hand because if the money is not available it simply is not possible for prices to keep rising. And with a reduction in the cash deficit, monetary policy can be, and I think recently has been, more effective. If it is really desired to prevent inflation, policies of monetary restraint must be accepted and as is becoming abundantly clear these mean relatively high interest rates until the threat of inflation subsides. We are only beginning to face up to the implications of combatting inflation with a managed currency. To succeed we must be prepared to accept and support at appropriate times what have always been regarded as unpopular policies, namely reducing government spending, maintaining and perhaps even raising taxes, and limiting the availability of credit.

Nothing that I have said is new but though it is old stuff much of it still has to be understood and accepted if we take inflation seriously and if we want a comparatively free economy. And we shall not get very far if we merely hope that men of goodwill will work together. There has to be leadership and in my view effective leadership can only come from the federal government which represents all the people of the country. I believe there is a lot of latent support from thoughtful and concerned citizens in every walk of life which would rally behind such leadership. But they will not rally if appealed to as members of organized producer groups, whether business, labour or farmers. Producer groups can be reasonably responsible or irresponsible but it is almost flying in the face of nature to ask them to fight inflation. The easiest and most natural way for organized labour, business and farmers to resolve their conflicting interests and overcome their problems is to raise their prices all round at the expense of the consumer and the citizen at large. It is true that inflation is not in the long-run interests even of producer groups but the fact is that short-run considerations, matters of immediate advantage and disadvantage, bulk heavily in wage and price determination. And the only way to combat the strong influence of producer groups is for the citizen in his role as consumer and responsible member of society to suport government policies and government attitudes designed to prevent inflation.

In closing, let me fire a parting shot at another form of fatalism concerning this question of inflation. That is the commonly expressed view that it does not matter very much what we do in Canada about inflation—the question will really be determined in the United States. It is certainly true that the Canadian economy is greatly influenced by the United States and that we should find it difficult to do much better than the Americans in combatting inflation. But we could easily do worse, and doing worse would not only carry with it the obvious disadvantages and inequities of inflation but it would undoubtedly slow our economic growth and lead to a less balanced kind of development. There are plenty of examples of countries in this very position today. And let us not assume that we shall without difficulty do as well as our American neighbours. In the sphere of fiscal policy they are doing more than we are now and they are carrying a relatively larger defence load. Their cash deficit for the past

fiscal year has been relatively smaller than ours and they are seriously budgeting national identity we must act responsibly and pursue well-conceived economic policies of our own.

The CHAIRMAN: Thank you very much, Mr. Gibson. The meeting is now open for questions.

Senator CROLL: As I gather from what you said, Mr. Gibson, you endorse cyclical budgeting as an accepted method. Now, politicians have to live, you understand that, and in order to live they get elected to office. At the last election you remember the charge of overtaxation that was made against the Government, and the people endorsed that stand. Now, I am just leading off. You say that reducing Government expenditures is an unpopular policy, as you say, and with that we all agree. If you take out the social service expenditures and defence expenditures you have got about half of the budget which really does not leave too much room for flexibility. These items you mention are not in the main really big items. They add up but they are not really great items. What I gather you said was the choice is between inflation without defining what is referred to as creeping inflation or whatever it is, or higher taxes. Now, as between the two, which do you prefer?

Mr. GIBSON: If you must put it that way, I guess I would have to say I prefer higher taxes. However, I would not completely rule out the possibilities of some Governmental economies and the thing I would emphasize is it should be possible to say, "Well, we are going to start now". In discussing Government expenditures, the thing that is notable is how much they have increased in the last few years, and if you could stop the increase, the proportion of Government spending in relation to the gross national product would naturally decline. I think in order to stop the increase you have to find ways of decreasing expenditures. In other words it has to be a real effort. But I agree that in certain circumstances it might be desirable to raise taxes.

Senator CROLL: But, Mr. Gibson, you yourself I think said the growth of the country was great, so in a country such as this, where there has been growth in every respect, is it not normal and natural that Government expenditures should continue to increase?

Mr. GIBSON: Perhaps it is, Senator Croll, but I think the area where it is normal and natural to have increases now is at the provincial and municipal levels. There we have a great need for educational facilities and roads, and expenditures such as these fall most heavily at the municipal-provincial level. And this is the area where increases are inevitable. But I think federal expenditures could be controlled more effectively.

Senator CROLL: What you are saying in effect is that perhaps the Government is not doing what it should be doing, and that is it is not distributing the share of the provinces to the extent that their need is greater than the federal need.

Mr. GIBSON: I am not an expert on this but it would seem to me that the federal Government has been assisting the provinces to some degree but it also has been increasing federal expenditures as well.

Senator CROLL: Well, Mr. Gibson, all I can say is that in the years I have been around here, with the exception of small things, and I cannot put my finger on them at the moment, I have not really seen any Government extravagances, and I have been around here for a great number of years. Everyone has carried the same opinion. Yet every one of you people have come here and said Government expenditures are too high and when I start examining myself I do not know where there is any flexibility.

Mr. GIBSON: I agree with you on this question of extravagance. I do not think you will find many examples of that. It seems to me and I am here talking as an amateur.

Senator CROLL: You are no amateur.

Mr. GIBSON: It seems to me the possibility of economy lies more in the examination of functions in saying, is this function necessary, are we doing things whose usefulness has apparently passed, can we reduce overlapping? I do not think you will find cases where organizations can be improved, where overlapping can be cut out and where some functions have passed their usefulness. It is a difficult and detailed kind of study and has to be continued all the time. The big, striking difference between Government and big business organizations is that business has a profit incentive to keep its costs down and has to find the money to pay for the additional expenditures out of its earnings. This is not nearly so true in Government and how to find an adequate substitute for the incentive is, I think, one of the great problems of our times.

Senator THORVALDSON: Mr. Chairman, in regard to what Senator Croll said with respect to whether or not there were extravagances in present expenditures, the fact is however that the Governments of this country and particularly the federal Government has been assuming new types of expenditures in the last few years, thereby increasing the need for revenue, and I refer to the new hospitalization scheme, for instance. There you have expenditures in the hundreds of millions of dollars, but it may not be extravagance, because we are assuming a new field of spending. I think your question on that statement should be corrected to that extent. We are now expanding in fields for which there may be greater requirements.

Senator CROLL: I did not suggest there were any extravagances.

Senator SMITH (*Queens-Shelburne*): Mr. Chairman, just to follow what Senator Thorvaldson said from the standpoint of inflationary pressures: what difference does it make whether the federal Government handles this large insurance fund which pays for hospitalization, or whether a lot of small private companies handles a lot of funds? Is it not the same thing?

Mr. GIBSON: Are you asking me that question?

Senator SMITH (*Queens-Shelburne*): Yes. What is the difference, from the standpoint of inflationary pressure, whether or not all this money is collected by the federal Government and spread among the hospitals, or whether people should be encouraged, as they have been over the years, to buy private insurance coverage and pay into separate funds?

Mr. GIBSON: As a banker, I do not feel very competent to cope with that question. People think there is a difference. It appears that the general government scheme costs a great deal more than a group of private schemes. That is about as far as I can go.

Senator CROLL: But Mr. Gibson, in the province of Ontario I pay less money for more benefits than I ever got from private organizations. That is on the basis of the many getting together.

Mr. GIBSON: Yes.

Senator CROLL: So, what Senator Smith is saying seems to make sense. That is really the only big project we have undertaken in the last few years.

Senator SMITH (*Queens-Shelburne*): The point I was trying to make was this: we are told that one of the great causes of inflation can be Government expenditures in the area of social security measures. I say there are some social security measures which are now done as a federal effort that have been done or ought to have been done by private enterprise. I am just wondering whether the change of technique has caused any pressure.

Mr. GIBSON: It seems to me that there is a fundamental question here, and I am not competent to discuss the merits in any detail of particular expenditures. I think I can properly say that it is pretty clear that the high level of

Government expenditures and the Government deficit disturbs the people. This is pretty evident in the reaction of the bond market. This is a fact that we have to face; it is one of the things that creates inflationary fear. As to whether it is a rationable or a reasonable thing, or whether it is being overemphasized, I don't know, but it is a fact that it creates a fear of inflation and makes it harder for the Government to sell its securities, and tends to raise interest rates generally. In other words, you have all this problem on the other side of the equation which we have to cope with.

Senator SMITH (*Queens-Shelburne*): Perhaps the answer is that this new scheme is being paid for by a cash deficit rather than seeing that the people pay these things through their labour which produces income on which taxes can be collected.

Mr. GIBSON: I dont' know about that.

The CHAIRMAN: One point is clear, the Government does not profit by the scheme. That is probably why the cost is brought down a little bit.

Senator HAIG: I want to ask the witness a political question. I am the only man around this table who will admit he is a politician. How long would you, as a Government, live if you suggested a reduction in any of these services?

Mr. GIBSON: Well, senator, you were kind enough to ask me as a banker to express my view on the problem of inflation—

Senator HAIG: That is inflation. You are accusing—

Mr. GIBSON: I am not accusing anybody of anything.

Senator HAIG: In your speech you suggested that the Government should reduce the cost of carrying on business in this country. Assuming that is your stand, where do you start? I agree with the senator who has just spoken, that we can't cut down on defence.

Mr. GIBSON: If I may interrupt you, senator, I am not accusing anybody of anything, or insisting that anything be done. I am simply saying that this is one of the reasons for the fear of inflation. It may be difficult to cope with it, but it is nevertheless one of the reasons for it.

Senator HAIG: And I am suggesting to you that your solution can't be carried out. We cannot cut down on our defence costs; even now they are calling for greater spending. We can't cut down on our welfare agency cost. They say we are not spending enough. There is a campaign on in Alberta—and they are a united people—for an old age pension of $75 a month.

My second point is, how can you reduce the ordinary expenses that are in effect? Can any Government do it, with the temper of our people today? I don't think so. We have had three or four elections recently—one in my own province, where the Government went from a minority position to a majority position. The opposition there, the Liberals, said they would cut down expenses, but the premier said he would increase expenditures because they needed roads, bridges and so on. What happened? The opposition dropped from 19 to 11 seats.

Mr. GIBSON: Maybe you are making a pretty good case for inflation.

Senator HAIG: The public won't agree to your solution. I want you to suggest a policy that we as members of Parliament can put into effect, and not have to go to the people, because they will not back us up.

Senator STAMBAUGH: And still stay in power.

Mr. GIBSON: Frankly, I have said what I think are the things that would help combat this problem of inflation. If they are politically impractical, that may be so, but I can only tell you what I honestly think.

Senator WOODROW: Mr. Chairman, may I ask a question on exports? We have heard evidence that some of our exports are non-competitive, particularly pulp and paper. When it is exported to the United States, the cost of our production limits our sales. You spoke about one of the principal items of cost being taxes. As I say, our market for pulp and paper is primarily in the United States; the competition comes from Sweden and from the United States itself, which is increasing its output of newsprint.

Now, how far can we go, and keep away from unemployment, in helping our export situation?

Mr. GIBSON: If I understand your question, Senator Woodrow, you are asking, how far can we go if we persist in a strong anti-inflationary policy, and maintain high taxes?

Senator WOODROW: No, Mr. Gibson, I do not mean that. I mean, what can we do to assist our exports and place them on a competitive basis with other countries, because there is the main key to unemployment.

Mr. GIBSON: I think the most important thing is try and combat this inflationary situation which is one of your main factors in the rising costs.

Senator WOODROW: A while ago you suggested we might increase taxes. Would that help our exports?

Mr. GIBSON: I tried to explain that increasing taxes has a great many objections to it, but it might be the best of two very poor choices. No, it does not help your exports.

Senator WOODROW: No. Have you any suggestion to make, then, as to what might be done?

Mr. GIBSON: We are in a difficult dilemma here, senator. If we pursue an effective anti-inflationary policy it is noticed by our friends, particularly, in the United States. They think our dollar is pretty sound. Our own people tend to borrow in the States which brings American dollars in here and increases the demand for Canadian dollars, and this all tends to raise the value of the Canadian dollar which is not helpful to our exporting industries. It is a very difficult dilemma because the more succesful, in a sense, we are in combatting inflationary trends the stronger the dollar tends to be, which does not help the export industry.

Senator WOODROW: Then, one of the remedies you suggest might be keeping the money at par.

Mr. GIBSON: No, sir. I think it is more important to combat inflation.

Senator HORNER: I did not hear the last remark of the witness. Did you say it would be more helpful to combat inflation?

Mr. GIBSON: I said it was more important to combat inflation than to try to get out dollar down.

Senator CRERAR: Well, Mr. Chairman, if we accept the thesis of Senator Croll and of Senator Haig, if his remarks are right, then we should move—and perhaps we are moving—towards some form of authoritarian Government and trust we will have a Solomon to guide and direct our affairs.

Now, I do not believe that. I have had a little experience in Government. Mr. Gibson suggested he was, perhaps, unable to suggest where economies might be made. From my own experience—and it goes over a good many years in Government—I think that Governments are the most ineffective instruments so far as the spending of money is concerned that you can find anywhere. They do not work to a balance sheet. They can either tax or borrow, and consequently the pressures applied come from all sides. There are pressures to increase spending on public works, health and welfare, defence, and everywhere else, and the problem is how to resist those pressures. I am convinced

from my own knowledge and experience that very great economies can be effected, if the means for doing so can be found, in the administration of practically every Government department.

I recall a few years ago when we were inquiring into the spending of estimates by different Government departments that we found one department where the efficiency of the administration had gone up and where the cost of the administration had gone down. That was due mainly to a gentleman who has since left the Government service and who is now head of one of the big corporations of Canada. There was another department where the same result was achieved. We had these two departments, following the war, where expenditures had gone down and efficiency had gone up, and the net result, of course, was a saving to the Canadian taxpayers. Now, that is not true of the other Government departments, and that is quite irrespective of what political party is in power.

My own view, if I may offer it to you, is that we have to extend the functions of Government to an alarming degree, and Governments today are asked to perform functions which they are not equipped to perform economically and, from the very nature of things cannot perform economically. Where it will all end I do not know, but I do know this, that there is every indication of a very sharp rise in the expenditures, for instance, for the civil service. As a matter of fact, twenty years ago the total cost of the civil service administration in Canada was under $80 million. That was in the year of the outbreak of the last war. The total of employees in the Government service was under 49,000. Today the cost of the civil service is running over $700 million a year, and the number of employees in the civil service in all categories has risen to about 190,000. How are you going to check that? That is a problem that faces any administration, irrespective of its political connection, that comes into power in Canada. And we are finding a growth of the same sort of order in almost all the provincial Governments. The most economical Government we have in Canada is our smaller municipal Government where the spending is under the eye directly of the voters. How we are going to arrive at that goal is a question, and I have my own ideas but I will not impose them upon the committee this morning. I do say this, that the expansion under pressure, if you like, of Government services in almost every field of activity is, in the end, going to pull us down into the morass. We cannot check it, and that whole thing, of course, in my own judgment, is very intimately associated with the problem that we are endeavouring to study in this committee.

The CHAIRMAN: Thank you. Mr. Gibson, I would like to ask a question. I have just read in the headline of our paper from home that one of our largest industrialists in New Brunswick made a statement the other day in which he said that unless the dollar is brought to par there is going to be trouble. That does not meet with what you said a moment ago, does it?

Mr. GIBSON: Senator Emerson, I would like to see it at par, but the question is: What is the cost involved in getting it there? If the cost is a substantial increase in the money supply I would think that it is the least desirable of the two choices.

The CHAIRMAN: What do you think of bringing the old Foreign Exchange Control Board up again, and making the dollar at par?

Mr. GIBSON: The difficulty about that is if you peg the dollar at par you have to be prepared to buy any amount of American funds that are offered to you at par, and you will remember what happened in 1950 when we got pushed right off the fixed rate, when we had so much American money thrown at us that we could not control our monetary situation and we had to go to the flexible exchange rate.

The CHAIRMAN: But do you not think that the 4 per cent premium is hurting a lot of our export trade in the United States. It is 4 per cent right off the top, and the paper companies and the iron ore companies are all shipping our valuable resources down to that country, and they are not getting any profit on it.

Senator HORNER: And there is also the export of grain.

Senator CROLL: We must not lose sight of the fact that we can look on the other side. To some extent we are compensated by the imports that we bring in from the other countries. We benefit to the extent of 4 per cent from those.

Senator HORNER: This helps to bring prices down in Canada but it does not help the domestic producer.

The CHAIRMAN: I can't see that Senator Croll, because if you bring in a lot of these imports you are going to get 4 per cent off and have a cheaper price but the company down in St. Andrews or in St. Catharines is going to have its business cut down.

Senator CROLL: There are natural imports made here year in and year out and these imports benefit and the consumer benefits to that extent.

Senator HORNER: Our imports are not nearly as important as our exports.

Senator BURCHILL: Hear, hear.

The CHAIRMAN: I agree with that.

Senator LEONARD: Mr. Gibson, you heard Mr. Muir. I take it you agree with him that we have the machinery to contain inflation?

Mr. GIBSON: In the main, yes.

Senator LEONARD: Do you have some qualification with respect to that?

Mr. GIBSON: Frankly, I would put a little less emphasis on monetary policy than Mr. Muir did and a little more emphasis on fiscal policy, but basically I would agree with what he said.

Senator LEONARD: And you do think it is desirable as a goal to contain inflation?

Mr. GIBSON: Oh, very much so.

Senator LEONARD: His third point was that it all depended on the will to use the machinery so as to contain inflation, and I presume you agree with that also?

Mr. GIBSON: Yes.

Senator LEONARD: And that what we really need at the present time is a restoration of confidence in all quarters that inflation can be contained by the machinery that we have?

Mr. GIBSON: I agree entirely with that, Senator Leonard.

Senator LEONARD: And the leadership in restoring that confidence should come in the first place from those in charge of our fiscal and monetary policies, and then be supported by the people who recognize the dangers or who will recognize and understand them if they are told about them. Would that be a reasonable statement of the goal?

Mr. GIBSON: Yes, I would agree entirely. I go a little further and suggest that you need some fairly positive leadership in this direction rather than just an explanation of the situation. There have been quite a few explanations.

Senator LEONARD: Leadership from where?

Mr. GIBSON: From Government. After all, the Government of Canada represents the people of Canada. There isn't anybody else who can properly give leadership in a matter like this, or give it nearly so well.

Senator LEONARD: Without that leadership you cannot expect the machinery to be operating effectively?

Mr. GIBSON: No. It seems to me that the problem of combatting inflation involves accepting some rather unpalatable and unpopular things. That is the point of my comments, and I think Mr. Muir said something similar. It is not easy to get people to accept this kind of thing. I would not argue for a minute that it is. It is difficult. But if you are going to cope with the problem of inflation then an effort must be made in this direction.

Senator HORNER: Senator Croll and some others will not agree with me but I think we are confronted with higher costs of production because of our social service legislation such as unemployment insurance and the old age pension. People are being paid for doing nothing. These services are being abused. Labour in Canada is not accomplishing the work that labour in similar occupations is accomplishing in the United States. They have a speed-up program there but here we have two men to do a one-man job. That is what I say is the main cause of inflation. You become unpopular if you say anything about it, but unemployment insurance has left a lot of good people idle.

Senator MCLEAN: Mr. Gibson, it is true our Government has gone into red ink but my opinion is that the policy started three years ago of tight money and high interest rates caused a recession but spending money by the Government has done a great deal to bring us out of that recession. We are probably repurchasing our way to recovery, and I think we are on our way to balancing our budget. But don't you think high interest rates themselves can be inflationary?

Mr. GIBSON: That is a very difficult question, Senator McLean.

Senator MCLEAN: It is all right to have a tight money policy and to ration money if we have to but it does not cost one cent more to issue money and spend it than it did three years ago. It puts rent up, mortgage money up, income tax up, and so on, when the Government is the biggest borrower.

Mr. GIBSON: If you are going to ration anything under a free type of economy, under a price system, the way to do it is to have the price go up. There is no other effective way to do it unless somebody decides how it is to be rationed, and that immediately raises the question of control.

Senator MCLEAN: Do you think that juggling the bank rate about 50 times in the last three years has done anything for stability?

Mr. GIBSON: We have an automatic bank rate. It just moves automatically.

Senator MCLEAN: Has any other country in the world got a similar arrangement?

Mr. GIBSON: I am not aware of any.

Senator THORVALDSON: I would like to ask Senator McLean who in his opinion is doing the juggling he claims?

Senator MCLEAN: It has been agreed that we have the machinery to cope with inflation but has any one man in the country the brains to run that machinery?

Mr. GIBSON: I would say that I do not know of anybody who knows enough to run this kind of machinery fully adequately but I think we do know enough to see at certain times that we should be pushing one way a bit and at other times we should be pushing the other way. In other words, there are quite a lot of indicators. Our means of measuring what is happening has improved. In recent years our country, along with other countries, has tried to moderate changes, the ups and downs of business, quite considerably through monetary and fiscal policies.

Senator MCLEAN: I am inclined to agree with you.

Mr. GIBSON: But I think the will is even more important than the wisdom. To pursue policies of expansion is not difficult. Nobody argues with things that are necessary when you want to expand, but on the restraining side these things are unpopular. To my mind this is the problem.

Senator McLEAN: We heard the other day that Canadian exporters, about 33 per cent of our people depend on exports.

We have read about the Americans losing their export business.

Canadian exporters are at a great disadvantage compared to American exporters. There is a 4 per cent exchange they have to pay and the cost of money has been put up here. The cost of carrying inventories is 1½ per cent higher here than in the United States.

Now, I believe the road can be eased very much in a very simple way. Looking at the figures we were $190 million down in trade balance with the United States. We did not pay for our imports. We had $190 million deficit. Well, that would naturally depress the dollar. If the dollar was left alone as a trade dollar it would have depressed it probably two per cent; but, on the other hand, we drive borrowers to the United States, by a high interest rate here set by the Bank of Canada. In the past two years nearly $1 billion and a half has been borrowed there, and it puts an artificial value on the Canadian dollar. Are we going to acknowledge here that we cannot pay for education for our children, that we cannot pay for our schools, hospitals, roads, and housing, and so on, without mortgaging what our forefathers left us, to borrow in the U.S.A., and through the exchange rate make our dollar a debt dollar instead of a trade dollar? And that is exactly what we are doing. If we put $700 million against $190 million the balance is going to go to a premium on the Canadian dollar, but we are not exporting enough to pay the interest on this money.

Mr. GIBSON: I know, but if you carry your argument through, then it seems to me that what you are implying is that interest rates ought to be lower in this country, and that means money ought to be easier, and this raises your problem of inflation.

Senator McLEAN: The United States is keeping rates down over there, and the impoverished countries go to them for money, and we go with them to get our share, when we could do the financing here at home. We line up with the impoverished countries to get loans. A country that paid $5 billion for war, and loaned another $5 billion to our allies can't educate its own people. That is the position we are in. I am not blaming the Government, for this is all due to the system which the Bank of Canada has decreed on us.

Senator HORNER: Would you recommend that we print the money as we did in wartime?

Senator McLEAN: What other money is there but printed money? I think we should finance ourselves at home. I do not want acknowledge that our grandchildren could not be educated here, and that we cannot do our own financing at home, but have to mortgage ourselves to another country to pay for their education.

Senator HORNER: I agree with you one hundred per cent.

The CHAIRMAN: There is one question I should like to ask. I understand, and if I am not right, correct me, Mr. Gibson, that there is all kinds of money in the Canadian banks on deposit today, in fact, more than ever before; is that right?

Mr. GIBSON: Yes, indeed.

The CHAIRMAN: Now, why does that money not find its way into buying these big coupon bond issues at 5½ and 5¾ per cent? Is it that the public are scared to death of our bonds?

Mr. GIBSON: Well, the order side of the bank deposits are the assets which the banks hold, and these assets consist mainly of loans to business and individuals, and so on, of securities and of cash. Now, we have because of the fact that our cash reserves are limited, to sell securities in order to meet the larger demand for loan, and this is one of the reasons interest rates have gone up.

Senator SMITH (*Queens-Shelburne*): If the Government in its wisdom made the choice between cutting down Government expenditures and imposing high taxes and they decided on the latter course, would you enlarge a little bit on your statement a while ago that those higher taxes would have an adverse effect on export industries?

Mr. GIBSON: Well, senator, I do not think I made that statement originally. All I meant was it would have an adverse effect in the way it affects all industries.

Senator SMITH (*Queens-Shelburne*): But if the Government's action was going to result in inflation being contained and therefore kept us in a position which you say would be a good one for our export industry, but then on the other thand they decided to have higher taxes which resulted in that control, how would that affect those export industries which today are having a hard time to sell their product in the States?

Mr. GIBSON: Well, I would not advocate increasing taxes at this time. I would hope that you could contain expenditures and see how the tight money policy works for a while. This is the sort of thing where we don't know too much and have to feel our way along and do the best we can in the circumstances; there is not any clear formula to handle these things. This particular problem is more difficult than anything we have faced for a long time because of the fear of inflation in the air. In most of our past experience people have not had the fear of inflation, but now they are afraid of it and trying to protect themselves, and this makes the problem of combatting it more difficult because you have to pursue policies to combat inflation which do not necessarily fit the economic environment.

Senator HORNER: What has created that fear, is it the discussion in this committee that has created that fear?

Senator LEONARD: Does not this kind of discussion help to overcome the fear that has been created by some other reason?

Mr. GIBSON: I would agree with you if the discussions lead to that conclusion.

The CHAIRMAN: Senator Campbell?

Senator CAMPBELL: Mr Gibson, I asked Mr. Muir a question about the situation existing today as compared with say five years ago, where at that time you had, or did after the war, a shortage of goods and a surplus of money, whereas today you have the reverse, I believe, a surplus of goods and a shortage of money; is that not so?

Mr. GIBSON: Well, to a degree, yes.

Senator CAMPBELL: That is, it is not as much out of balance as it was before. Now, if we had sufficient goods for distribution today what effect would an increase in the money supply have, in your opinion, under present conditions?

Mr. GIBSON: I think there would be the danger that it would confirm the fears that people have about inflation. I would not altogether go along with you when you say we have a surplus of goods and shortage of money. We have a shortage of money in the sense that the people are acting that way; they are afraid of inflation, they don't want to buy bonds. There ought to be enough money to go around, if we could get ourselves in a frame of mind that we were not concerned about inflation.

Senator CAMPBELL: Yes, but is it not a fact that it has been necessary for the banks to curtail credits a bit at the present time?

Mr. GIBSON: Yes, it is, sir. Well, to check increases, anyway.

Senator CAMPBELL: And that in the light of the tremendous borrowing that is taking place in the United States, as Senator McLean referred to. Now, what I am asking is, is there any real danger of increasing the inflationary effects in this country by an increase in the money supply to take care of the current borrowings necessary to carry on the economy of this country?

Mr. GIBSON: Well, this is a question of judgment in the circumstances. If you want my own personal opinion, I would think that it would be desirable to keep a fairly tight rein on the money supply for the time being, but it might very well develop that the disadvantages of this might outweigh the advantages, and then you have trouble. Obviously none of these objectives can be put in a separate compartment so that you can say, "Well, we must do this at all costs." You have to consider the effects on other desirable objectives. Now, the effect on the exchange rate is one of the undesirable features of pursuing an anti-inflationary policy. At some point or other, and this is purely a question of judgment, you might say, "We do not want to pursue this any further because there are disadvantages to the high exchange rate and you get to the point where they outweigh the advantages pursuing such a firm anti-inflation policy."

Senator CAMPBELL: During the presentation of your brief, I gathered that you advocated that Governments examine the functions that they are to perform which involve the expenditure of money and attempt to not increase the expenditures and the functions they have already assumed. I am thinking of the social services, unemployment insurance, old age pensions and things like that. You were, I think, saying that under present conditions Government should not increase those expenditures, without a very careful examination and that if they were able to hold them on their present basis it would be a favourable trend toward the control of inflation.

Mr. GIBSON: It would be very helpful and I think one must admit that there are factors which do not make it easy to do.

Senator BURCHILL: In the latter part of your brief you made some reference to our closeness to the United States. I just did not follow all you said, but is not the monetary policy of the United States a big influence here in Canada?

Mr. GIBSON: Very great indeed, yes.

Senator BURCHILL: So that, no matter what the policy of our Government is, either fiscal or monetary, it can be altered or influenced by interest rates in the United States, is that not so?

Mr. GIBSON: That is correct.

Senator BURCHILL: So that, we are more or less tied up in a way with the policies of the United States?

Mr. GIBSON: We are very greatly influenced by them. My own belief is that it would be very difficult for us to do very much better in combatting inflation than the Americans. We could easily do a lot worse. In other words, we could carry on an easier kind of policy and not achieve as good a result as the Americans. You can see all sorts of countries in that position today who are greatly influenced by the United States but who are not doing nearly as well as the United States in combatting inflation.

Senator BURCHILL: How do interest rates in Canada compare with those in the United States at the present time?

Mr. GIBSON: On the whole they are relatively higher than usual. It is very hard to say what a normal spread should be, but the spread today is wider than it usually is.

The CHAIRMAN: Does a tight money policy not have the tendency to make the bigs bigger and the smalls smaller, even to the extent of putting some of the smalls out of business. The bigs have a greater opportunity to go on the money market and get money by selling preferred stock with the common stock as a bonus, and so on. It really seems to me that the bigs are getting bigger and the smalls are getting smaller and in a few years there won't be any more small businessmen.

Mr. GIBSON: Senator Emerson, I would not argue that there has not been some tendency in growth and size in our economic system, not only in Canada but in other countries, and I would say this, that the large firms have more sources of funds, there is no question about that. But I do think that our banking system in Canada has a fairly strong natural incentive to look after the needs of the small and medium-sized business. As you know, we have a branch banking system in Canada, with branches of any one bank spread all across the country, and each one of these branch banks is run as a unit by a manager, and by and large the activities of the manager are judged on the profitability of his operations, on the way he builds up business and the way to make most money in banking is to make loans. And what is more, most branches deal with small people because there are only a small number of places that have big businesses in them, so in most branches you find the accounts are a variety of small business ones. These are important to the branch manager and he will fight for them. It is only the big accounts that get into head office for review. The manager has a varying amount of discretion, as has the regional office. For this reason I think the banks have quite a bias in favour of the smaller business. If you want to grow as a bank, as against your competitors, the way to do it is to go along with people as they grow all over the country. Banks are not apt to overlook the requirements of their smaller customers.

The CHAIRMAN: Honourable senators, if there are no more questions, I would like to thank, in the name of the committee, and to congratulate Mr. Gibson on the fine presentation he has given us, and for coming here on behalf of the Bank of Nova Scotia.

The committee adjourned.

Second Session—Twenty-fourth Parliament
1959

THE SENATE OF CANADA

PROCEEDINGS OF THE STANDING COMMITTEE ON FINANCE

on the Threat of Inflation in Canada

No. 8

THURSDAY, JUNE 25, 1959

THE HONOURABLE CLARENCE V. EMERSON,
Chairman

WITNESSES:

The Canadian Manufacturers' Association: Mr. J. C. Whitelaw, General Manager; Mr. J. A. Calder, Past President, C.M.A. (Vice President and Treasurer, Imperial Tobacco Co. of Canada Ltd.); Mr. John D. Pattison, Economist, Imperial Oil Ltd.; Mr. Ira G. Needles, Chairman, Tariff Committee, C.M.A. (Chairman of the Board, B. F. Goodrich Canada Ltd.).

The Dominion Mortgage & Investments Association: Mr. A. H. Lemmon, President.

Manitoba Pool Elevators: Mr. W. J. Parker, President.
Interprovincial Farm Union Council: Mr. A. P. Gleave, Chairman.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

THE STANDING COMMITTEE ON FINANCE

Chairman: The Honourable Clarence V. Emerson.

The Honourable Senators:

*Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Buchanan
Burchill
Campbell
Choquette
Connolly
(*Halifax North*)
Connolly
(*Ottawa West*)
Crerar
Croll
Dupuis
Emerson
Euler
Farris
Fraser
Gershaw
Golding
Haig
Hayden
Higgins
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Power
Pratt
Quinn
Reid
Robertson
Roebuck
Savoie
Smith
(*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
Wall
White
Woodrow—(50)

**Ex officio* member

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, TUESDAY, April 28, 1959.

"Pursuant to the Order of the Day, the Senate resumed the postponed debate on the motion of the Honourable Senator Wall, seconded by the Honourable Senator Leonard:

That the Standing Committee on Finance be instructed to study the threat of inflation in Canada;

That the Committee have the authority to send for persons, papers and records, and to report from time to time.

After debate, and—

The question being put on the motion—

The Senate divided and the names being called they were taken down as follows:—

CONTENTS

The Honourable Senators:

Baird
Basha
Beaubien
Bois
Boucher
Bradette
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Croll
Dupuis
Euler
Farquhar
Gershaw
Golding
Grant
Hodges
Hugessen
Isnor
Jodoin
Lambert
Lefrançois
Leonard
Macdonald
McGrand
Petten
Pouliot
Pratt
Reid
Robertson
Roebuck
Savoie
Smith (*Kamloops*)
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Westmorland*)
Vaillancourt
Veniot
Wall
Woodrow—40.

NON-CONTENTS

The Honourable Senators:

Aseltine
Brunt
Buchanan
Emerson
Gladstone
Haig
Higgins
Horner
MacDonald
Méthot
Pearson
Quinn
Sullivan
White—14.

So it was resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, June 25, 1959.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.15 a.m.

Present: The Honourable Senators Emerson, Chairman, Aseltine, Beaubien, Bouffard, Burchill, Campbell, Crerar, Croll, Euler, Fraser, Gershaw, Haig, Horner, Isnor, Leonard, Macdonald, Power, Reid, Smith (*Queens-Shelburne*), Taylor (*Norfolk*), Turgeon, Vaillancourt and Woodrow—24.

In attendance: Dr. John J. Deutsch, Economic Consultant. The official reporters of the Senate.

Consideration of the order of reference of April 28, 1959, was resumed.

The following were heard:—

The Canadian Manufacturers' Association:
- Mr. J. C. Whitelaw, General Manager.
- Mr. J. A. Calder, Past President, C.M.A. (Vive President and Treasurer, Imperial Tobacco Co. of Canada, Ltd.)
- Mr. John D. Pattison, Economist, Imperial Oil Ltd.
- Mr. Ira G. Needles, Chairman, Tariff Committee, C.M.A. (Chairman of the Board, B. F. Goodrich Canada Ltd.)

The Dominion Mortgage and Investments Association:
- Mr. A. H. Lemmon, President.

Manitoba Pool Elevators:
- Mr. W. J. Parker, Pesident.

At 1.00 p.m. the Committee adjourned.

At 2.15 p.m. the Committee resumed.

Present: The Honourable Senators Emerson, Chairman, Beaubien, Bouffard, Burchill, Crerar, Croll, Euler, Fraser, Gershaw, Golding, Haig, Horner, Isnor, Leonard, Pearson, Reid, Taylor (*Norfolk*), Turgeon, Vaillancourt and Woodrow—20.

The following were heard:—

Interprovincial Farm Union Council:
- Mr. A. P. Gleave, Chairman.

Further consideration of the order of reference was postponed.

At 3.00 p.m. the Committee adjourned until Tuesday next, June 30th instant, at 10.15 a.m.

Attest.

John A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, Thursday, June 25, 1959

EVIDENCE

The Standing Committee on Finance, which was instructed to study the threat of inflation in Canada, met this day at 10.15.

Senator Clarence V. EMERSON in the Chair.

The CHAIRMAN: Order, please. We have quite a long agenda this morning and so we will start as quickly as possible. The first witness this morning is the Canadian Manufacturers Association, and I am now going to call on Mr. J. C. Whitelaw, the general manager of the Association to introduce his associates.

Mr. J. C. Whitelaw, General Manager Canadian Manufacturers Association, called:

Mr. Chairman, and members of the Committee on Finance, the Canadian Manufacturers Association is represented here this morning by the following gentlemen:

Mr. J. A. Calder, vice president and treasurer of the Imperial Tobacco Company of Canada, Ltd., Montreal, and one of our past presidents;

Mr. F. D. Mathers, president of Delnor Frozen Foods, Ltd., New Westminster, B. C., and who is the recently-elected second vice president of the association;

Mr. Hugh Crombie, vice president and treasurer of the Dominion Engineering Works Limited, Montreal, and one of our past presidents;

Mr. Ira G. Needles, chairman of the board of the B. F. Goodrich Canada Limited, Kitchener, and who is also chairman of the tariff committee of our association;

Mr. John D. Pattison, who is the economist of the Imperial Oil Limited, of Toronto;

Mr. J. Graeme Watson, president of E. & S. Currie Limited, Toronto;

Mr. C. Willis George, who is Ottawa representative of the Canadian Manufacturers Association;

Mr. W. D. H. Frechette, who is manager of our commercial intelligence department.

With your permission, Mr. Chairman, I would ask Mr. Calder, who is our chief spokesman, to present our submission.

The CHAIRMAN: Yes, but first of all I would like to welcome Mr. Calder and all your associates to our meeting.

Mr. J. A. Calder, Vice-President and Treasurer, Imperial Tobacco Company of Canada Limited, and Past President, Canadian Manufacturers' Association:

Mr. Chairman and gentlemen:

The Canadian Manufacturers' Association welcomes this opportunity to set before you its views on the threat of inflation in Canada, and some of the many complex issues associated with this problem. In the years since the fears of

post-war depression ceased to be a major preoccupation a great deal has been written and said on this subject not only in Canada but in every other leading country. In all of this material there are conflicts of opinion, disagreements as to the relative importance of various sides of the problem and disagreement in distinguishing between cause and effect. Your endeavours to synthesize information and opinions on the subject, which has been described as so complex as to defy definition, are to be welcomed by all Canadians and should make a significant contribution to our national store of knowledge and understanding.

We shall deal with the nature and extent of the threat of inflation, its effects and side effects, its causes, and the ways of containing it.

Our evidence will show:

(1) the damage caused by inflation and the special difficulties it creates for manufacturers;

(2) the difficulties and shortcomings in the anti-inflationary application of monetary policy in Canada, and the need for a thorough study of Canada's financial structure in this context;

(3) the extent and effects of the ever-increasing expenditures of all levels of government, and the urgent need to eliminate or postpone further increases, working towards the earliest possible balancing of the Federal budget;

(4) the need for an enquiry by a Royal Commission or other appropriate independent agency with a view to eliminating causes of waste, inefficiency and extravagance in government administration;

(5) the inflationary aspects of taxation and the desirability of reducing taxes as soon as possible consistent with long-term fiscal policy;

(6) the action needed to restore a more equitable balance to the bargaining table and restrain the use of monopolistic power by unions to attain excessive and inflationary wage increases unrelated to productivity gains;

(7) the powerful inflationary influence of a general expectation of inflation, and the need for a forthright Government statement, backed up by example, of its determination to resist inflation and prevent it from making further inroads on our economy;

(8) the record of profits and the self-regulating characteristics of competitive private enterprise which exert a continual downward pressure on prices and dampen inflationary excesses which may arise in business pricing policies.

At this point I would like to refer to the appendices attached to this submission, commencing at page 18, reference to which will be made from time to time as we go through the submission.

Appendix I is the consumer price index, and tells merely what is the nature of the index and what it reflects.

Appendix II (A) shows the effects of inflation on the purchasing power of a monthly annuity of $100 in the various years shown, and what has happened to it.

Appendix II (B) shows the effects of inflation with respect to provision for a university education. It shows that provision becomes inadequate as inflation takes its course.

Appendix III is a table showing in some cases the index number, and in others absolute figures for gross national product, expenditures by all governments, federal Government employment, population, capital cost of all governments, manufacturing corporation profits before taxes. Note (1), I think, is significant. It reads:

> The year 1949 has been used as a base for the same reasons that it was selected by the Dominion Bureau of Statistics for the base of the

Consumer Price Index. The years 1945 and 1946 were considered unsuitable because of the existence of price controls, rationing and consumer subsidies. Through 1947 and 1948, the economy was subject to economic pressures of a non-recurrent nature associated with postwar reconstruction, which resulted in an extremely rapid rise in retail price levels. For these reasons 1949 was considered to be the earliest post-war year which could reasonably be used to illustrate recent movements in economic indicators.

Following is Appendix IV, which again shows index numbers, commencing with the Consumer Price Index with 1949 as a base. It shows the index of average hourly earnings in manufacturing, and the index of average weekly wages in manufacturing in both current dollars and 1949 dollars.

Following page 22 is a circular, recently put out by the Canadian Manufacturers' Association, showing the sales dollar breakdown results for the year 1958, compiled from reports put in by over 1,000 members of the association.

Appended to that circular is the last page in our submission which shows similar results tabulated over a period of years, during which the Canadian Manufacturers' Association has made such a study.

(Complete appendices appear at end of submission by Canadian Manufacturers' Association).

May I now revert to my text.

We speak, not as theoretical economists, but as business men who day by day must cope with the practical problems of operating a manufacturing establishment and planning for its future. Since the problem with which we are dealing is essentially one of human behaviour, it should be made clear that, although the primary objective of management must be to provide a fair long-term return to its owners, the shareholders, for the use of their property, humanitarian and public interest considerations are fundamental in the formulation of business decisions. No business can long function successfully in the absence of healthy employee and community relations.

The Canadian Manufacturers' Association is a non-profit, non-political organization of some 6,400 manufacturers in every line of industry in Canada who are joined together to consider and to take action on their common problems. Its membership in some 600 communities from coast to coast includes concerns of all sizes, three-quarters of them employing fewer than 100 persons. In other words its membership distribution in terms of location, line of products, and size of establishments, closely parallels the composition of the entire field of manufacturing in Canada. It speaks therefore, not for big industries nor for small industries, not for narrow regional or sectional interests, but for the manufacturing industries as a whole, which are the source of livelihood for one out of four Canadians.

Definition of Inflation

Rather than to attempt a lengthy and scholarly definition of inflation we will content ourselves with suggesting that there are two broad types, characterized by their principal causes: 'demand-pull' inflation, such as you have in a war-time scarcity of goods or in a sustained period of government deficit financing; and 'cost-push' inflation where prices are forced upwards by the pressures of rising costs of production and distribution of goods and services.

The clearest manifestation of inflation in the Canadian economy is to be found in the Consumer Price Index. The composition of this index, which is described in Appendix I to this submission, makes it for most practical purposes a reasonable measure of the degree of inflation that has been experienced over

a period of time. To make our position clear we would say that, by inflation, we imply a combination of economic circumstances which results in an upward trend in this measure of price levels.

The Threat of Inflation

Throughout the post-war period, which has been one of almost steady inflation, responsible authorities have pointed to the progress of inflation and the dangers inherent in this situation. Until quite recently, however, it did not become a matter of public concern. It is significant that during 1957, which neared a peak of inflationary pressures, the general public outcry was not against inflation but against a measure to resist it, "tight money". During prosperous times when most incomes were rising more rapidly than the price level there grew in the general public an attitude of indifference towards the prospect of continually increasing prices. It was only the spectacle of a continuing price climb during the 1957-59 period of underemployment in financial, physical and human resources which gave credence to the statement that inflation is a personal as well as a national problem. One indication of the condition of public confidence is the performance of the financial market where investors have continually bid equity stocks to new record levels having little relation to their prospects of earnings and have shown little taste for fixed dollar obligations.

If the heavy cash requirements of the Federal government over the next few months, together with the mounting demand pressures arising from the cumulative effects of continuing business recovery, can be handled without a new dose of inflation, the short term prospects of inflationary excesses will have receded. The long term prospects, however, demand more critical and extensive analysis.

Economic analysts and the spokesmen of industry are often regarded as pessimists because they insist on confronting squarely certain unpalatable truths. Despite this characteristic the Canadian Manufacturers' Association is by no means pessimistic about the economic outlook for Canada. We do not accept the philosophy that inflation is either inevitable or desirable and we believe that the will to prevent inflation must be kept vital. If seriously inflationary booms and excesses can be avoided, the likelihood of damaging slumps in the economy will be thereby greatly reduced.

The Association believes that the strength and resources of Canada, if left primarily for development by private sectors of the economy, will overcome the present difficulties and that the long term prospects are very good indeed. Without a sound, stable currency upon which future plans of individuals, corporations and governments can be based, however, the outlook would be discouraging.

The Case against Inflation

Inflation is a reflection of the national desire to live beyond national means. It is a process which has everyone "running faster and faster in order to stay in the same place." It offers unwarranted opportunities for gain by the more speculative groups in the community at the expense of all others.

Inflation has been aptly termed "the cruellest tax" because its burden falls most heavily on those least able to bear it—those who are dependent upon the income derived from savings in the form of life insurance policies, annuities, pensions, and so on. This is not a small unimportant segment of our population, but rather, in the course of time it affects virtually all Canadians. In his February, 1959, report to the Minister of National Health and Welfare on Economic Security for the Aged in the United States and Canada, Dr. Robert M. Clark gave an indication of the number of individuals affected in

just four categories: 7.5 million life insurance policyholders; between 1.75 million and 2 million persons covered by employee pension plans; 9.5 million individual savings accounts in the chartered banks; over 2 million individual owners of Canada Savings Bonds.

Based on an average life expectancy at age 65 of 11.7 years, a man retiring today may expect to see the purchasing power of his fixed income and of his accumulated savings reduced by about one-quarter within the balance of his lifetime, if the course of inflation in Canada over the past ten years continues. To illustrate further how inflation hurts the "solid citizen" who accepts the responsibility of providing for his own future see the examples in Appendix II: (a) the year-by-year deterioration in the value of a $100 annuity and (b) cost of providing for a university education.

For manufacturers the cost-price climb of an inflationary period presents special difficulties and dangers although it may in the very short term, particularly in a period of accelerating inflation, appear to hold promise of some benefits in the form of increased profits through less consumer resistance to price increases. Manufacturers, caught in the squeeze between inflating costs and the pressure of import competition, find a larger and larger proportion of their Canadian and export markets being captured by the manufacturers of other nations. The financial distortions of inflation on depreciation allowances on assets may easily go unnoticed until the company or industry is faced with the problem of the greatly increased replacement cost of the assets in question.

In his Budget address on April 9th, 1959, the Minister of Finance described the inequities, dangers and distortions of inflation in these terms: "Rising costs and continuing price increases spell inflation. They weaken our competitive position at home and abroad and thereby reduce the possibilities of useful and productive employment. They divert effort from productive pursuits to the wasteful processes of speculation, from which in turn flow economic maladjustment and decline. More than this they impose severe burdens on those with fixed incomes and those normally least able to protect themselves. They lead to unequal sharing of the fruits of progress and frustrate the just expectations of toil. I believe that the long run growth in production and the fairness with which it is distributed are not unrelated and that both depend upon reasonably stable prices."

Inflation and Monetary Policy

As has already been indicated the Association believes that action to resist inflation is infinitely preferable to extremes between inflation-fed booms and damaging slumps. There are obvious imperfections and gaps in the information which is needed to improve the timing and degree of anti-inflationary measures but nevertheless enough is known to permit us to hold the threat of inflation in check if we have the will. Canadians as a group should face the fact that the often bitter medicine of anti-inflationary measures is less distasteful than the consequences of the disease.

The Association believes that Parliament acted soundly in delegating to the Bank of Canada responsibility for the regulation of credit and currency in the best interests of the economic life of the nation, and in providing that it should be free from political pressures in carrying out its duties. The primary objective of monetary policy should be sound money, the relative conditions of "tight money" or easy money being, in themselves, neither good nor bad. Monetary policies can and should be designed to help mitigate fluctuations in the general level of production, trade, prices and employment, but should not be pushed to extremes in an endeavour to create or reverse a basic trend in the economy.

One aspect in the application of monetary restraints which needs further study is their unequal impact on different segments of the economy and different geographic regions. Some are peculiarly sensitive to them whereas others having external financial resources or which operate outside the immediate range of the central bank's scope, are less affected.

Despite its shortcomings, the use of monetary policy to moderate extreme fluctuations is preferable to a system of controls and direct interference in business. Such controls merely attempt to treat the symptoms rather than attacking the cause of the malady. For instance, price controls, which can only discourage production, tend to aggravate the problems they seek to solve.

In its submission to the Minister of Finance in May, 1958, the Association recommended as follows: "It is recommended that a new appraisal be made of the Nation's whole financial structure and machinery by independent, perhaps international, experts, directing specific attention to the affects and shortcomings of monetary policy and its application. Such an appraisal should include, inter alia:

> (1) an examination of the banking system, commercial, savings and central, with particular reference to its efficacy in making equitable distribution of available funds as between large, medium and small borrowers and, conversely, in evenly distributing the burden of tight money during a period of monetary restraint;
>
> (2) the role of other lending institutions, some of which remain outside the scope of the Bank of Canada's monetary powers;
>
> (3) the need for wider discounting facilities in the capital market in order that such things as mortgages and export paper may be more negotiable (as an example, removal of the present legal restrictions upon the charging of discounts in respect of loans approved under the National Housing Act to enable the private capital market to play a larger part in supplying funds for low-cost housing construction).

There is little doubt that a new period of tight money is the prospect for the next several months. The Association therefore welcomes the announcement by Mr. Ulric Roberge, president of the Canadian Bankers' Association, on May 14th, 1959, that a special attempt will be made to look after the essential credit needs of small borrowers.

We have used the term "tight money" simply as a concise way of referring to a condition in the financial market when the supply of funds is increasing less rapidly than the demand for them. We do not imply that this means an unnecessary or unnatural constriction of the money supply. This condition is, of course, both a result and a cause of inflationary pressures, the latter because higher interest rates are reflected in higher costs. The Association believes, however, that, as in markets for other goods and services, the price mechanism and the free interplay of the forces of supply and demand are the best means of rationing funds to those who want them and would put them to productive use.

Government Spending and Deficit Financing

From the facts available on the subject of inflation it is apparent that the fiscal policies of governments have played a major role; on occasion, governments have initiated policies which stimulated and added to already excessive spending.

Over the past 20 years, only partly because of the needs of war and the cold war which followed, Canadians have surrendered to their government a progressively more dominant position in the economic life of the country. This trend has not been entirely self-generated but arises partly from the

demands of various groups for government assistance in meeting the special difficulties which confront them or to put them on a par with other groups receiving government assistance. Its effect is seen in the insatiable demands of all levels of government to spend more and more. The expansion of governments and their cost in comparison with other rates of growth in the Canadian economy is given in Appendix III wherein it will be noted that annual expenditures by all levels of government (exclusive of inter-government transfer payments) have increased by 156 per cent since 1949, while the Gross National Product has only increased by 97 per cent. These government expenditures last year accounted for 31 per cent of the Gross National Product, up from 23 per cent in 1949. Federal government employment over the same period (excluding government agencies, Crown corporations, and the armed services) has grown by 46 per cent as against an increase in population of only 34 per cent.

The competitive efforts of political parties to buy popularity at the polls through promises of more and more state hand-outs to this or that group of voters has led to the establishment in Canada of some of the most extensive and costly social security programs seen in the world today. The crippling burden imposed by ever-increasing government spending, together with the enervating effects of state socialism have inserted into our economy what most competent authorities regard as a distinct inflationary bias.

The Association believes that the relief and elimination of hardship must continue to be one of the preoccupations of our society. The funds allocated for these purposes must, however, be kept within limits which are consistent with our financial resources. We are attempting to travel too fast in this direction and are substituting the redistribution of wealth and income for the incentives for progress and investment that are the only means to greater national wealth and income

The Association supports Government action to relieve a serious and distressing unemployment condition, but if such action is pushed to extremes to eliminate all so-called unemployment the effort becomes self-defeating and drives costs and hence prices steadily higher. No one would seek to deny the hardship caused by real unemployment but it must be remembered that unemployment figures include those who are changing jobs, hunting around for something better, sick, temporarily laid off, or for personal reasons unwilling to move from areas where labour is abundant to those where it is scarce.

Massive attempts to redistribute wealth and income through transfer payments, price supports, subsidies and the like have contributed to keeping prices up but they have not cured unemployment.

As Mr. Graham Towers said in Toronto in November, 1957, "There would appear to be something farcical about a system which penalized one hundred per cent of the people in the hope of gaining some benefits for a changing group of say two or three per cent of the working force."

Spending which has the specific intention of reducing unemployment in a recession may be amply justified but the record shows serious shortcomings in its application. The first of these is that government spending programmes tend to take root and become permanent fixed or increasing costs. Second is the time lag between the decision to undertake pump-priming programmes and their actual impact in the form of new expenditures. This means that the peak demand in money, men and materials for the purposes of the programme may be reached when recovery is already on the way, and thus compete directly with businesses seeking to expand their activities and increase employment opportunities. The current situation is a demonstration of this conflict.

The financing of the Government's cash deficit is having its impact on the money market at a time when the limitations of money supply are

already straining to meet the needs of a more rapid business tempo with its increasing payrolls, sales and inventories and the reviving pace of modernization and expansion of plant and service facilities. Interest rates, as a result, have been driven steadily higher, adding significantly to the current and long-term costs of business as well as government. At the present time the chartered banks' prime rate, that is the rate charged to first-class commercial borrowers, is 5¾ per cent which, under the statutory limit of 6 per cent, leaves only one-quarter of one per cent as the differential between borrowers of the highest and lowest risk categories. Without the special consideration promised by the bankers, the narrowness of this differential would tend to concentrate a larger proportion of loanable funds in the hands of the largest borrowers and reduce the proportion available to small borrowers which, on the average, are likely to fall in the higher risk categories. Another effect of high interest rates is that lower levels of government and other large borrowers find it more attractive to raise funds in the United States. As these funds are transferred to Canada they exert an upward pressure on the Canadian dollar exchange rate and in turn this adds to the international competitive difficulties of Canadian manufacturers and other producers to the detriment of employment in Canada.

As we have shown, certain government expenditures designed to deal with unemployment in fact do not cure it but may lead to another form of hardship, that of inflation. It follows that steps which enable industry to increase employment and production should assist in maintaining stable prices and in removing some indirect causes of inflation. As examples, we call attention to the desirability of accelerated depreciation allowances and the use of adequate tariffs as an incentive to production and employment where prices and continuity of supply would not be seriously distorted.

The needs of national defence are, of course, a sizeable element in the cost of government. In preparing against the prospects of total war there is no absolute measure of the sufficiency of any amount of expenditure. With due respect to the informed judgments of the military experts, the amount is likely to be determined more on the basis of what the taxpayer may be able and willing to provide than on the basis of what is needed. Much the same is true in the case of additions to our social capital, the cost of education, roads, northern exploration and development and so on.

It is widely assumed that taxation is anti-inflationary and that a balanced budget means a neutral fiscal policy. In fact this is not always the case. Taxes on business enterprises and on goods which enter into the processes of production are elements of production cost and moreover they tend to pyramid as goods move through the various stages of production and distribution. The resulting price increases may cause some decline in the physical volume of sales, other than in essential goods and services, but the more immediate result is likely to be higher prices as taxes are added to other costs.

Although it is true that the great majority of government expenditure is politically and factually irreducible, any degree of waste and extravagance in the government and defence establishments can add significant sums to the burden of their cost. Waste and inefficiency are more likely to breed in a period of budget surplus but they also tend to be carried through an "economy wave" in the form of entrenched practices and inflated capital costs. Despite the surveillance by parliamentary committees, the Treasury Board and the Auditor General it is believed that these reducible costs are by no means negligible and an unrelenting attack must be made upon them.

Government exercises vigilance and zeal in enforcing laws directed against the development of monopoly in manufacturing and business generally, to the end that the customers of business will get the fullest possible value for their money. Government, the biggest business of all and a complete monopoly,

has therefore a heavy moral obligation to exercise at least as much vigilance and zeal in continually scrutinizing its own expenditures to the end that its customers, the taxpayers, will get the fullest possible value for their money. The Government is to be commended for its warnings to the public to eliminate rigidities and expenditures which generate inflationary pressures. But like charity, this elimination should begin at home. To combine two proverbs, an ounce of example is worth a pound of precept.

If inflation is to be halted, governments at all levels must bring the growth in their spending into line with the growth of national production. The solution to these problems calls for the highest standards of political morality and statemanship. We venture to hope that this august Chamber, as a result of your finding, will assume its full responsibility in attaining these ends.

Recommendationss

(*a*) It is recommended that the Government should issue a clear and unequivocal statement of its determination to resist inflation and prevent it from making further inroads on our economy, and to resist the further encroachment of state socialism which penalizes self-reliance, thrift and enterprise while rewarding irresponsibility, improvidence, and the habit of leaning on someone else. The Association endorses the concept that the major role of government is to create an atmosphere within which private enterprise can best operate to supply the needs and demands of the community, and unequivocally condemns arbitrary intervention in business activities.

(b) The Association recommends the earliest possible balancing of the Federal budget and the elimination of its cash deficit by reducing expenditures where possible and by postponing further commitments against the public treasury.

(c) It is recommended that expected increases in Government revenues be used to reduce the levels of taxation as soon as possible, consistent with sound long-term fiscal policy, thus restoring the incentive and ability of private enterprise to create new job opportunities for Canada's expanding population.

(d) Reiterating its recommendation made to the Government of Canada in September, 1957, and repeated in later submissions to the Minister of Finance, the Association recommends that a Royal Commission or other appropriate independent agency be appointed to enquire into the present organization and methods of administration of the various departments of Government with a view to identifying and elimitating causes of waste, inefficiency and extravagance.

(e) As already stated, it is recommended that a new appraisal be made of the nation's financial structure directing specific attention to monetary policy and its application.

Wage Costs:

Another serious continuing inflationary pressure in the Canadian economy arises from the use by labour unions of monopolistic power in continually forcing wage rates and hence prices upwards without relation to the demand-suppply position of the products concerned or to the increase in the productivity of labour. In saying this let it be clear that the Association opposes the growth of monopoly in any form, but its dangers are most widely apparent when it affects the factors of production. Monopolistic control of goods and prices on the part of industry is now effectively outlawed but, on the other hand, labour's capacity for restraint of trade has increased steadily with the growth of the

huge industry-wide unions and today these wield excessive power amounting to monopoly.

Roger M. Blough, Chairman of the United States Steel Corporation, recently estimated that "If we take the entire production process from the raw materials right through to the finished product, employment costs—direct and indirect—account for seventy-five to eighty per cent of all costs." A recent U.S. study by the National Industrial Conference Board showed that, after exclusion of taxes, labour gets 83.2 cents out of every dollar of income generated in the national economy, while a separate study by Econometric Specialists Inc. indicated labour's share to be 76 to 85 per cent. Be that percentage as it may, it is a striking summation of the way in which wage costs are pyramided as goods move through the various stages of production from the raw material processor to the fabricator to the manufacturer of finished goods and on through the distributive processes.

When labour demands, and gets, an increase in wages the entrepreneur has several choices. He may be able to absorb all or part of the increase by accepting a lower profit, if we can make the unlikely assumption that the competitive situation has not already driven profits to the minimum level required to retain capital in the business and attract new capital for expansion. He may decide to meet the increase by consuming a part of his capital, that is, by cutting into depreciation reserves and the like. He may stabilize or reduce his labour costs by using less labour, that is, by the adoption of labour saving equipment and techniques or by going out of business altogether. He may reduce material costs by using new and cheaper substitutes or by adopting more efficient methods and equipment for transforming them into finished products. All other costs being relatively inflexible, the remaining choice is to raise prices, but in a constant progression of wage increases, outstripping management's ability to contain costs by the use of more efficient materials, methods and equipment, such as we have witnessed during the entire post-war period, the entrepreneur's choice becomes more and more limited—to raise prices or go out of business. Such price increases are inflationary and, without this inflation, the unfortunate effect of wage gains outstripping productivity is unemployment.

In evidence given before the National Industrial Conference Board in 1957 Mr. Ewan Clague, Commissioner of Labour Statistics, United States Department of Labour, clearly demonstrated three important facts: first, the close relationship over time between unit labour costs and finished goods prices; second, he found that wages in current dollars, including fringe benefits of all forms have continually outstripped gains in productivity; and third, he showed that wage gains are quickly and broadly dispersed from the highly organized labour groups to the unorganized sectors and even the white collar groups.

It is frequently said that the annual increase in national productivity, if it could be measured, would be a satisfactory measure of the reasonableness of demands for increased wages. This suggestion, however, takes no account of the fact that most improvements in productivity are achieved only at substantial cost in terms of research and expensive capital facilities, or the desirability of disbursing productivity gains in the form of lower prices wherever possible.

Much is made by labour spokesmen of the argument that an increase in wage levels "puts more money in circulation" and stimulates spending which in turn calls forth increased production and results in an all-round improvement in national prosperity. If this is a valid argument for wage increases unrelated to productivity gains, it must apply with equal force to all other non-productive disbursements such as armed forces pay and allowances, family and old age security benefits, as well as to the emoluments of all salaried and self-employed Canadians, or even to the monthly "dividends" promised by early Social Credit

theorists. It is true that these things would put more dollars into circulation, but only at the cost of a corresponding debasement of those dollars. If Canadian consumers can afford to pay a higher price for the labour content in the things they buy, how can it be argued that the same consumers cannot afford to buy more things? The argument is a bland assumption that we can spend ourselves rich. In short it is a recipe for inflation.

Recommendation:

The Association recommends that a more equitable balance be restored to the bargaining table by removing the relative immunity of unions from prosecution under the Combines Investigation Act and the Criminal Code as well as their immunity, for all practical purposes, from damage actions.

Expectation of Inflation:

The course of economic events in a free society is the result of the millions of decisions made by individuals as to the application of their resources between different forms of spending and saving and between the supply of their labour or the witholding of it in the form of leisure time. Because of the very complexity of our society it is impossible to predict with confidence the degree to which such decisions will be influenced by changing sets of circumstances. The fear of inflation, or what the Governor of the Bank of Canada has referred to as inflation psychosis, if it becomes prevalent, is one of the most powerful influences. Its effect is a general scrambling by individuals corporations, even government bodies, to profit by it or to seek shelter from it. The composite results of their actions inevitably tilt the scale more and more towards inflationary pressures and accelerate the trend.

These fears are abroad in Canada today. Perhaps, as Governor Coyne believes, they will prove to have been exaggerated, but only if positive steps are taken along the lines which we have indicated.

The Business Sector:

Commenting on the behaviour of prices during the recent recession and on the normal expectation that advancing technology should result in lower prices, the Minister of Finance in his 1959 Budget address said:

> It is evident, however, that developments in corporation pricing policies, in labour organization and even in our political democracy are producing increased rigidities which inhibit the free play of competitive forces and thereby promote inflation and price increases.

The constitution and policies of the Canadian Manufacturers' Association specifically exclude it from any activities in the fields of price structures or pricing policies. For this reason we cannot lay claim to any special knowledge of the subject nor have we conducted any studies into the inter-action of prices.

Lowered consumer resistance to increasing prices, which results from a rapid increase in incomes and a general expectation of continuing inflation, may have made it possible, as the Minister of Finance suggests, that some individual price advances have been larger than needed to meet the immediate strain of increased costs. The natural tendency of our free competitive enterprise system is, however, to exert a continual downward pressure on prices and the market-place deals quickly and summarily with such excesses. Dominion Bureau of Statistics records of corporation profits in the manufacturing industries (see Appendix III) show that total profits in 1958 were only 32 per cent higher than in 1949 while the Gross National Product

had increased by 97 per cent. Without taking account of fringe benefits and making no allowance for shorter hours, average weekly wages have increased by 67 per cent since 1949 and have exceeded the increase in the Consumer Price Index by 33 per cent (see Appendix IV). The Association's own surveys on sales and profit results of member companies over the past eleven years are summarized in CMA Circular No. 3075 of May 14, 1959, a copy of which is appended to this submission. Again working from 1949 as the base year, they show that profits in that year were 5.8 per cent of sales, that in only two years have they exceeded that figure (7.1 per cent in 1950 and 5.9 per cent in 1955), and that in the past three years they have steadily declined to a low of 4.6 per cent in 1958.

In any consideration of profits it must be borne in mind that this is the main source as well as the principal attraction for the capital funds needed to finance the expansion of productive facilities and job opportunities, the research and technological innovation which leads to new products and lower unit production costs and the continual improvement in our standard of living. These same factors are essentials in the struggle to maintain and improve our competitive position in the market places of Canada and the export markets throughout the world.

In summary, the Association recommends:

(1) a clear-cut indication that the Government of Canada does not intend to permit a continuing trend of inflation, creeping or otherwise;

(2) a halt in the continuing expansion of government expenditures and an all-out effort to eliminate waste and inefficiency in the use of public funds;

(3) a reduction in the costly burden of taxes as soon as fiscal conditions permit;

(4) an independent study of Canada's financial structure, particularly in relation to the application of monetary policy;

(5) removal of the privileged status of labour unions which permits them to exert monopolistic power in pursuit of ever-increasing wage claims.

We place little faith in exhortations of moderation as a means to combat inflation but reiterate our belief in the powerful stabilizing forces of the competitive enterprise economy, provided that its built-in checks and balances are permitted to operate with a minimum of interference.

All of which is respectfully submitted.

signed: W. H. EVANS,
President.
J. C. WHITELAW,
General Manager.

The CHAIRMAN: Mr. Calder, I would like to congratulate you on your fine brief and on your presentation of it. The meeting is now open for questions by honourable senators.

Senator EULER: Mr. Chairman, from listening to the various submissions that have been presented to this committee, there seems to be one point on which all parties are agreed, that is that we are spending too much money. I speak now with particular reference to Government expenditures, and in that respect I think the witnesses are correct. That statement has been made by presidents of banks, of insurance companies, representatives of the Canadian Manufacturers' Association and others.

I single out the matter of expenditures, although the witness has given

some other suggestions as to what might be done. He made two references to too heavy expenditures, on which perhaps he might be inclined to give a further explanation. One appears on page 8, and reads as follows:

> The competitive efforts of political parties to buy popularity at the polls through promises of more and more state hand-outs...

I will not continue further with that quotation than to say that it seems to be more or less of a criticism of what we call state socialism, socialistic expenditures like baby bonuses and that type. Possibly the witness could enlarge that point.

Before doing so, I would like to refer him to one other point on which he might have further comment. He mentioned the big expenditures for what we call our defence policy. On page 10 he says:

> The needs of national defence are, of course, a sizeable element in the cost of Government.

Whether defence is a matter of Government, I do not know.

> In preparing against the prospects of total war there is no absolute measure of the sufficiency of any amount of expenditure. With due respect to the informed judgments of the military experts, the amount is likely to be determined more on the basis of what the taxpayers may be able and willing to provide than on the basis of what is needed.

I make particular reference to the last phrase, "on the basis of what is needed".

As honourable senators know, I have on many occasions made a statement to the effect that the amount of money—something like $1,600 million this year—that is spent on so-called defence is to a great extent wasted. I know many of my colleagues will not agree with me on that, but I say that the amount spent on so-called defence is wasted because it does not meet the needs of defence against the instruments of war as we have them today. I have in mind, particularly, the intercontinental ballistic missile against which it is stated there is no defence. Now, if we are spending that total amount of money is not that a particular item upon which we could make a tremendous reduction in expenditures. We could even have it followed by a reduction of taxes, which the witness has suggested and recommended today. I was wondering whether the witness would care to stick his neck out and say something along the lines I have suggested in regard to military expenditures.

Mr. CALDER: Mr. Chairman, if I may be permitted to answer these questions in reverse order, since the last question was dealt with at greater length, I will say that we all have in mind this question of defence cost. I would like to point out that in our brief where we mention this question of defence cost we are talking about financing the Government's cash deficit and we are trying to point out how this deficit is inflationary, and then we speak of a number of expenditures which go to cause this deficit. Now, to single out any one of the costs and say: "This is excessive and unnecessary, and, therefore, it creates a deficit", I think, would require a study of that particular thing. We have suggested a study of the operation of departments of Government to insure that there is no unnecessary waste, all of which leads to the same thing. I, personally, would not be prepared to say whether I feel that the present expenditures on defence are too great or too small. I think that is a study requiring a great deal of knowledge of the over-all plan of defence, and we have pointed out here that, unfortunately, the expenditures on defence are related to the funds available, or to the extent that deficit financing can be carried on, rather than to the absolute requirements. Now, if we can find a

means of studying those absolute requirements and knowing what they are, we would know whether defence expenditures are excessive or, perhaps, even insufficient.

Senator EULER: May I ask another question? Would you think the Government would justify the keeping of heavy defence expenditures for the sake of providing employment?

Mr. CALDER: No, I do not believe that that is justified—

Senator EULER: Neither do I.

Mr. CALDER: —for that purpose alone.

Senator MACDONALD: I suppose a sudden and large reduction in military expenditures would affect employment?

Mr. CALDER: Yes, Mr. Chairman. I do not think it would be a wise course to have any sudden change that can be avoided. If a change is to be brought about I think it is important that it should be done over a period of time. We have seen the effect in a series of emergencies where we have not had the opportunity of making the change over a long period of time. These changes have been brought about overnight with the advent of war, or something of that sort, and we have had grave dislocation of the whole economy of the country. You could have the same thing if somebody, very arbitrarily, were to wave a wand and say: "Starting tomorrow there will be no more defence expenditures". I think that would be drastic.

Senator EULER: Mr. Chairman, I asked two questions, and the witness has has answered only the one.

Mr. CALDER: The first question related to the fact that there has been, apparently, some sort of tendency, to gain popularity at the polls, by offering more and more in the way of social benefits. If there is a criticism implied it is a criticism of the Canadian people who will react to such things, but I think the Canadian people will always react to that unless we try to insure against inflation by placing the emphasis upon self-reliance and savings and self-provision for the future. We should try to assure the Canadian people that through their own efforts they can take care of their future requirements, and that if they do the threat of inflation will disappear. The threat of inflation is evident, and the more it develops the more we will have calls for this sort of help from the Canadian people. They will feel that the ability to deal with their own future has been taken away from them. Personally, I feel, and I am sure the Association feels, too, that one of the most important things we can have in our economy is a self-reliance of the people of the nation as a whole on their ability to take care of themselves without leaning more and more on Governments or outside help.

Senator EULER: You think, then, that there is a little too much paternalism?

Mr. CALDER: I think the paternalism has been shifted, perhaps, from the old paternalism of the entrepreneur to the Government. Now it is the Government who is the great white father and who is expected to take care of the ills and troubles. In this area there are real hardships, and I do not want to generalize too much, but I think if we provide the opportunity for the Canadian people to take care of themselves they will welcome that. That is what they would really prefer.

Senator CROLL: My question follows Senator Euler's, and it was answered in part. I have two questions. I gather from the last two paragraphs on page 8 that what you say is that the social services are extensive and costly, and we are travelling too fast in that direction. That is the meaning I take from those two paragraphs.

Mr. Calder: Yes, sir.

Senator Croll: You agree? Are you prepared, other than suggesting that we provide opportunity for self-reliance, to put your finger on something that would meet the suggestion of being too costly, too extensive, and too fast.

Mr. Calder: Well, perhaps, I might ask one of the members of this delegation to take that on. Mr. Pattison, would you care to speak to that question. I think the senator's remarks are on the line of social security.

Mr. Pattison: I would say that the recent increases in old age benefits and in the family allowances were not related to any capacity of the Government to meet these. The fact is that at that time the old age security fund was already running into a deficit, and taking steps to meet that deficit has resulted in an increase in the tax base at a time when our economy was in recession. Some of these policies were conflicting. I do not know that I can go much beyond that.

Senator Croll: Mr. Pattison, may I just indicate to you that if you take the old age pension, which came into effect in 1924—I think that was the year—

Senator Macdonald: 1926.

Senator Croll: Yes. At that time it was $20, and now the old age pension is $55. Assuming they are the same thing but under different names, and taking the gross national product at that time and the gross national product at that time and the gross national product at this time, the old age pension should be nearer $75 than $55.

Mr. Pattison: Perhaps I can enlarge a little more on this. The transfer payments of Canada, exclusive of the interest payments, in the third and fourth quarters of last year were equal to 10 per cent or more of our disposable income in this country, which seems to me to be rather large.

Senator Croll: You suggest, in any event, that—

Mr. Pattison: I may have been misleading in taking out one single element such as old age security. I do not mean to imply criticism of that particular kind of benefit.

Senator Croll: What have you in mind?

Mr. Pattison: I am thinking of this omnibus 10 per cent which has been built up in recent times.

Senator Croll: You were not talking about social security, then? You were not thinking of social security measures?

Mr. Pattison: It embodies all the social security programs, including those handled by the municipalities and provinces.

Senator Reid: Is it not true that the gross national product price is a somewhat misleading one? We can show an increase in the gross national product in the last few years but to my way of thinking that does not entirely mean an increase in production. It means an increase very often in trade value. It is not actually a case of goods produced. It is confusing, because we are not producing so much more. It is a question of value increasing due to inflation.

Mr. Pattison: That is true, sir.

Senator Croll: May I finish with antoher question?

The Chairman: Yes.

Senator Croll: When the Canadian Labour Congress appeared before us early this week they had considerable to say about administered prices; that is to say, business was administering prices and setting them without regard to costs but for their own benefit. The Congress said they were prepared to go before a Government body and submit their wages related to productivity but that business had indicated no desire to pick up that offer.

Mr. CALDER: I am not aware of any such offer. Do you know specifically when it was made?

Senator CROLL: Yes. It was reported in the press on a few occasions—I have not got the clippings with me—and it was also recorded in Hansard. The delegation from the Canadian Labour Congress repeated it here last week in the presence of most of these gentlemen here.

Mr. CALDER: This may be a question of breakdown of communications we hear about a great deal in all phases of our life today. Mr. Chairman, Senator Croll's question involves an important point and I would like to ask Mr. Needles to speak to the general question.

Mr. NEEDLES: I would like to move back a little way to the comment made regarding the reaction of the public to the desire for increased social services, which has to come at a higher cost. It seems to me that we all have a tremendous responsibility in this. You gentlemen here can take great leadership in educating the public to the fact that these social services have to be paid for and that they come out of the pocket of the individual in the form of taxes in one way or another. If it were possible to be more realistic in terms of a tax as it applies to a certain type of social service expenditure so that these funds would be self-liquidating and the people would know what they were paying for, it seems to me benefit would accrue. The public has developed the habit of leaning. Perhaps that is a natural thing over many years, but there should be a continual publicizing of the fact that these social services cost money and that the public is going to pay for them in the end and that these services in turn cause a trend towards overexpenditure by Government, which in itself is defined as one of the causes of inflation. I am not clear on that other question.

Mr. CALDER: Would you rephrase your question, Senator Croll?

Senator CROLL: Yes. When the Canadian Labour Congress was here they made the definite suggestion that what we are suffering from are administered prices. I don't have to define that term to you gentlemen.

Mr. CALDER: No.

Senator CROLL: You have heard the term. At any rate, the Congress said they were prepared to go before a governmental body on the question of prices and relate wages to productivity. They made the statement publicly on a few occasions and repeated it here this week. I am asking what your position is with respect to that.

Mr. NEEDLES: To attempt to define prices as administered prices is a most difficult thing indeed. It has become a catchword of popularity which really does not mean what it appears to mean. A price is determined inevitably, finally and assuredly on the basis of the cost of supplying the goods or services to provide the returns necessary to reward the capital which has been invested. Over a period of time prices will inevitably flow to a point somewhat above the overall costs, otherwise business would fail. So when we are talking about administered prices we are talking about a term that has no meaning in fact. Any business executive knows that at the end of the year he has got to get enough money for the goods he produces and sells in order to have a profit to pay the shareholders and the capital he has to employ. This can only come from the price of his product. His costs must necessarily include every phase of a very wide variety of influences, of which labour costs is one, relative productivity is another and material costs is still another. There are many widely varying factors affecting prices, and wages is only one of them.

Senator MACDONALD: And also they return on investment.

Mr. NEEDLES: Yes. That has to be there or he will go out of business and you won't put money in his business or buy his stocks unless he pays you a dividend. Therefore, his prices must reach a level where they absorb all costs and he can pay you a dividend. In the process the manufacturer tries to improve his methods of productivity by capital expenditure, which is the major way he does it. He desires to pass along to the public the benefits of his increased efficiency the best he can, and he also desires to share with labour so they can get ahead and be satisfied. They are entitled to share to some extent in the progress he is making. Inevitably, when these forces are all brought together and added up in sum total, he must get a price which leaves enough to pay a return to the shareholder.

Senator CROLL: I agree with what you say generally, but I have asked you whether business is prepared under these circumstances, as labour is, to relate wages to productivity?

Mr. NEEDLES: That would be an extremely difficult and complicated thing to try to do, for there are so many factors bearing upon it. How much is due to capital expenditure of new equipment which produces more goods? How much is due to the selection of better, cheaper materials? How much is due to efficiency of scheduling and manufacturing? How much is due to efficiency of distribution? It is a very wide subject and you have so many different related factors that to pick out one and try to make everything else stand still would be an impossibility for a businessman.

Senator CROLL: What you are saying in effect is that wages is merely one factor, but is it a big or small factor?

Mr. NEEDLES: It depends greatly on the industry. In some industries, because of the inability to develop processing machinery which performs a large portion of the work, you have a high amount of labour. In other types of industry where you can use automation, mechanical means of moving articles from one place to another, scheduling and so forth—for example, in the use of very large assembly lines or chemical lines where you do not need a high proportion of labour—then it is that your material tends to become a very important factor in the total cost.

Senator CROLL: So for these reasons you say that it is impractical?

Mr. NEEDLES: It would be impractical, not only for industry overall but it would be impractical for the individual industry, in my opinion.

Senator CRERAR: Mr. Chairman, may I make a comment on this matter of administered prices. We are developing a great love for slogans in this country and "administered prices" probably at the moment is one of the most popular of these. We know that in the cost of living, the food index is the largest single factor. Now, you can go into any half-dozen food stores in this city, and you will find different prices for the same article, even though there is there a form of very intense competition which I think is healthy and useful. Now, the question I really want to ask is this: On page 12 of the brief, in one of the recommendations that the association makes, and it is recommendation (d), where your association, sir, recommends a royal commission or other appropriate independent agency be appointed to inquire into the present organization and methods of administration of the various departments of Government with a view to identifying and eliminating causes of waste, inefficiency and extravagance.

Now, may I suggest to the association that that would be of very little use.

In my time in Parliament we had two commissions of that kind. Following the first World War there was a group of efficiency experts, as they called

themselves, from Chicago, who where brought to Ottawa and they conducted a very full survey of Government administration which cost, as I recall, several hundred thousand dollars and I do not think it produced that amount of savings in Government administration.

Senator Power: Mr. Chairman, if I may interrupt, the report that Senator Crerar refers to was made by E. O. Griffenhagen and he was retained only for the purpose of investigating the organization of the civil service and not to look into matters of waste and efficiency and extravagance.

Senator Crerar: That is very true, but when you touch the organization of the civil service you touch pretty nearly the whole thing.

The next survey was made several years later.

I do not think that any efficiency expert can go into a Government department today and bring in a report that can be implemented. If you want to cut inefficiency in administration you have to put the proper man at the head of it, not only the minister but also the deputy minister who is really the general manager of the department. If you do that you are going to get results but you are up against a tremendous wall of misunderstanding and opposition. There is nothing in my knowledge that is really more wasteful in administration than Government, and in the very nature of things it probably cannot be otherwise to a certain measure. In the United States the Hoover Commission made a survey of the civil service and it touched the fringe of some things and it may have effected a few million dollars savings in a total expenditure that runs into billions.

Our civil service is costing us several hundred millions of dollars a year for salaries alone without anything else, and the only way to cure that is the same way you gentlemen would cure the same situation in you own business operations. If you have a business concern that has run down because it has been inefficient and wasteful the only way to cure it is to find a general manager who will go in there and straighten it up, and I know of instances in business concerns where that has been done.

Mr. Needles: Of course, that is exactly what business does but it cannot depend upon its own executives in the various offices of selling, distribution, production and so forth to do this work because their know-how is not sufficiently broad in the whole field so they call upon methods analysis, they call upon counsel to give them advice and it brings in exactly the thing the Canadian Manufacturers Association has recommended but business does not call it a commission, they call it consultants. We have those consultants on our own payrolls. We hire them frequently and they come and tell us how we can operate more efficiently. Having done that, however, the management, including the president of the company and the executives, must have the courage to carry out the recommendations, and if I may, in all courtesy, say, determination to carry out the recommendations is an essential part in getting effectiveness from such a study. But Governments are so big and are involved in so many activities I would hardly think it reasonable to ask any individual to survey the whole gamut of operations, but appoint a group of consultants or experienced people in that field to do it and together they can make recommendations. But the executives must have the courage to carry them through.

Senator Crerar: You do admit it would be a little more difficult in the case of a Government department than it would be in private industry.

Mr. Needles: Yes. But I still think much can be accomplished there.

Senator Leonard: Mr. Chairman, this is a very comprehensive and well-prepared brief and there is a lot of meat in it. I think we could probably spend the whole morning in finding out some more information

in connection with it but we do have some other witnesses and I am going to suggest that we spend some more time among ourselves studying this brief and if we do require any more information I know we can always call on the Canadian Manufacturers Association and they will be glad to co-operate with us. Therefore I was wondering if I might suggest you leave this for us to study further.

Senator MACDONALD: Would it be possible to ask just one question, Mr. Chairman?

The CHAIRMAN: Well, just one little one.

Senator MACDONALD: In the summary on page 16 of the brief the association recommends a clear-cut indication that the Government of Canada does not intend to permit a continuing trend of inflation, creeping or otherwise. I would like to find out what the association has in mind with respect to that statement. First, what can the Government do in that regard?

Mr. CALDER: I will attempt an answer. I think the first thing is that there must be an indication in all the Government activities that there is going to be a determination not to allow inflation just to run away with us, that they are prepared to take the necessary and unpalatable pills, including encouraging the Canadian people to accept the unpalatable pill of cure rather than allowing the disease to run its course which is far more unpalatable in the end.

It would involve practically all the suggestions that were made regarding Government expenditures, including the elements of deficit financing, reduction of taxation when opportunity permitted, and all the other things that are contained in our brief.

The CHAIRMAN: Mr. Calder, may I thank you and your delegation for your attendance here today, and the presentation of your most helpful brief. As the honourable senator has said, it will take a god deal of time to give it the study it warrants.

Mr. CALDER: Mr. Chairman, may I close off by thanking you for the attention you have been good enough to display. I fully realize how difficult it is to listen to an 18-page brief being read. I do appreciate your courtesy and attention, and the association is very much indebted to you for the opportunity of appearing here.

The CHAIRMAN: Thank you Mr. Calder.

APPENDICES

APPENDIX I

The Consumer Price Index

The Consumer Price Index was introduced by the Dominion Bureau of Statistics in 1952 to replace the previous Cost of Living Index. The new Index was designed to serve the same purpose but it was substantially revised to bring it into line with post-war expenditure patterns and the name was changed to make it clear that it is not an index of standards of living. Basically, the Consumer Price Index is a measure of the percentage change over a period of time of the cost of buying a standard "basket" of goods and services. Based on quarterly surveys of family expenditure, the "basket" is calculated to represent the "normal" purchases of an average family for a period of one month. The "average family" on which the calculation is based, covers the mid-range of income earners in order to represent a group whose purchasing habits are reasonably similar.

Since the price indexes were first published in 1910, the series has been revised every 10-15 years to bring it into line with current purchasing habits, reflecting changing tastes, the introduction of new products, new customs of household operation and so on.

A complex and carefully measured system of weighting is used which takes into account unusual seasonal expenditures and, as far as possible, adjusts for any measurable changes in quality of products. The prices are obtained each month by the Bureau's investigators who check actual prices at a representative selection of retail establishments in 33 cities across Canada.

APPENDIX II—A

THE EFFECTS OF INFLATION

A—THE PURCHASING POWER OF A MONTHLY ANNUITY OF $100 PAYABLE FROM 1939 TO 1959 DEFLATED BY THE CONSUMER PRICE INDEX WITH 1939 = 100

Year	Deflated Value of Annuity	Year	Deflated Value of Annuity
1939	100.00	1949	63.20
1940	96.19	1950	61.42
1941	90.80	1951	55.58
1942	86.69	1952	54.25
1943	85.18	1953	54.72
1944	84.72	1954	54.39
1945	84.27	1955	54.30
1946	81.55	1956	53.51
1947	74.53	1957	51.84
1948	65.15	1958 (a)	50.52
		1959 (a)	50.29

SOURCE: "Economic Security for the Aged in the United States and Canada" by Robert M. Clark.

NOTES: (a) Figures brought up to date including first four months of 1959 by C.M.A.

APPENDIX II—B

THE EFFECTS OF INFLATION

B—Provision for a University Education

In 1948, a man decided to set up a fund to provide a university education for his 8-year old daughter. Information supplied by the University of Toronto, showed that the costs for arts students were as follows:

Tuition and incidental fees (1948-49)	$ 236
Room and board in residence	384
Total (per year)	$ 620
Required for a four year course	$2,480

He calculated that he would have to set aside $17.74 per month for ten years at 3% compound interest in order to accumulate that amount by the time the daughter reached university age; i.e. by 1958.

In 1958 he had what he thought was the required amount, $2,480; but on checking with the University, he learned that costs for 1958–59 were:

Tuition and incidental fees	$ 380
Room and board in residence	525
Total (per year)	$ 905
Required for a four year course	$3,620

In other words his fund was short by $1,140. In order to have met the full requirement he should have set aside a monthly sum of, not $17.74, but $25.90—46% more than his original estimate.

APPENDIX III

Year	Gross National Product	Expenditure by all Governments		Federal Government Employment	Population	Per Capita cost of all Government	Manufacturing Corporation Profits Before Taxes
	Index	$ Millions	Index	Number	Number	$	Index
1949	100	3,724	100.0	123,924	13,447,000	276	100
1950	110.1	3,982	106.9	127,196	13,712,000	291	131.4
1951	129.5	4,974	133.5	124,580	14,009,000	355	143.8
1952	146.8	6,318	169.5	131,646	14,459,000	438	133
1953	153	6,613	177.3	131,167	14,845,000	446	130.7
1954	152.2	6,850	184	137,270	15,287,000	448	115.6
1955	165.6	7,260	194.6	169,343	15,698,000	462	143.3
1956	184.6	7,870	211	170,535	16,081,000	488	155.2
1957	192.3	8,539	229.5	173,551	16,589,000	515	144.2
1958	196.8	9,541	256	180,553	17,048,000	560	132.4

Sources: Dominion Bureau of Statistics: National Accounts Income and Expenditure, Federal Government Employment, Manufacturing Industries of Canada, Corporation Profits, Statistical Review. Bank of Canada: Statistical Summary.

Notes: (1) The year 1949 has been used as a base for the same reasons that it was selected by the Dominion Bureau of Statistics for the base of the Consumer Price Index. The years 1945 and 1946 were considered unsuitable because of the existence of price controls, rationing and consumer subsidies. Through 1947 and 1948, the economy was subject to economic pressures of a non-recurrent nature associated with post-war reconstruction, which resulted in an extremely rapid rise in retail price levels. For these reasons 1949 was considered to be the earliest post-war year which could reasonably be used to illustrate recent movements in economic indicators.

(2) All indexes arithmetically calculated on 1949 base by C.M.A.

(3) Expenditure by all Governments includes expenditure by Federal, Provincial and Municipal governments, excluding transfers to other levels of government.

(4) Federal Government Employment shown is the number of employees, excluding casual labour as at March 31st each year.

APPENDIX IV

Year	Consumer Price Index	Index of Average hourly earnings in Manufacturing	Index of Average Weekly Wages in Manufacturing	
			Current $	1949 $
	1949 - 100	1949 - 100	1949 - 100	1949 - 100
1949	100	100	100	100
1950	102.9	105.5	105.5	101.9
1951	113.7	119.2	118.1	103.0
1952	116.5	131.2	129.0	111.0
1953	115.5	137.3	134.8	116.7
1954	116.2	142.4	137.6	118.4
1955	116.4	146.5	142.4	122.4
1956	118.1	153.5	149.5	126.3
1957	121.9	162.6	155.6	127.4
1958	125.1	167.8	160.0	127.7
1959 (Feb.)	125.7	172.6	167.2	133.2

SOURCES: Dominion Bureau of Statistics Prices and Price Indexes Manhours and Hourly Earnings.

NOTES: (1) Index of Average Hourly Earnings, arithmetically converted to 1949 base by C.M.A.

(2) See Note (1), Appendix III.

THE CANADIAN MANUFACTURERS' ASSOCIATION

CIRCULAR No. 3075

67 Yonge Street,
Toronto 1, Ontario,
May 14, 1959.

SALES DOLLAR BREAKDOWN RESULTS FOR 1958

Dear Sir:

Profits as a percentage of sales in Canada's manufacturing industry in 1958 were the lowest recorded in the eleven years the Association has been surveying them and reflected the business recession which prevailed throughout a good part of the year.

These profits averaged out at 4.6 cents, six-tenths of a cent less than in 1957. During the same year, profits expressed as a percentage of total net worth averaged 7.3 percent.

These facts emerged from the eleventh annual survey conducted within the ranks of the Association membership in all ten provinces of Canada. One thousand and nineteen companies co-operated in the study. Of this number, 175 reported losses on their year's operations. The co-operating companies reported 485,830 employees on their payrolls and net sales of nearly nine billion dollars.

Of the 1958 after-tax profit figure of 4.6 cents, 2.0 cents were retained in the business and 2.6 cents were paid in the form of dividends to shareholders. The comparable figures for 1957 were 2.9 and 2.3. Federal and provincial taxes in 1958 totalled 3.6 cents in each sales dollar.

These Association surveys were started in 1949 as a result of the widespread belief that manufacturing industry's profits were much higher than they actually were. They have consistently exposed the myth that these profits are responsible for a high proportion of the prices paid by the final consumer.

On the back page of this letter you will find a complete breakdown of the manufacturer's 1958 sales dollar. Also enclosed, as an added service, is a consolidation of the surveys covering the ten-year period from 1948 to 1957, which is, in itself, very revealing.

Yours faithfully,

G. H. CRAIG,
Chairman,
Public Relations Committee.

J. C. WHITELAW,
General Manager.

D. P. KEOGH,
Manager,
Public Relations Department.

EIGHTY-EIGHTH ANNUAL GENERAL MEETING
Algonquin Hotel, St. Andrews by-the-Sea, N.B.
June 7, 8 and 9, 1959

PUBLIC RELATIONS DEPARTMENT

Results of Questionnaire on Breakdown of Sales Dollar for Fiscal Year 1958

	1958	
1. **Net Sales** (that is, gross sales, less returns and allowances.).	$8,827,807,000	99.2%
2. **Other income**	75,054,000	.8%
Total	$8,902,861,000	100.0%
3. **Wages and salaries** (all wages and salaries including management salaries, directors' fees, payments to employees for holidays and in connection with profit sharing or production incentive plans, unless such payments are distributed only upon retirement of employee or some similar basis, in which case they are to be included in 4.)	$1,955,046,000	22.0%
4. **Employee benefits** (payments to pension plans, group life, sickness or hospitalization insurance, workmen's compensation, unemployment insurance, medical services, cafetarias, welfare funds, 25-year clubs, etc.)	145,883,000	1.6%
5. **Materials** (including raw materials, finished and semi-finished parts, materials purchased for resale, materials consumed in processing or assembly operations, and packaging and shipping materials; but not including shop and factory supplies to be included in 7.)	4,134,972,000	46.5%
6. **Excise and sales taxes** (included in 1 above, remitted or to be remitted to Dominion and other Governments.)	315,100,000	3.5%
7. **Other expenses** (including shop and factory supplies, power, water, municipal taxes, maintenance, repairs to buildings, machinery and equipment (not including salaries and wages or employee benefits included in 4 above), office, administrative and selling expenses not included above, including charitable donations and interest expense.)	1,263,582,000	14.2%
8. **Depreciation**	359,543,000	4.0%
9. **Taxes on income** (Dominion and Provincial taxes on income.)	317,470,000	3.6%
10. **Dividends** (dividends declared on preference and common shares.)	233,577,000	2.6%
11. **Retained in the business** (that amount of the year's income not paid out in dividends.)	177,688,000	2.0%
Total	$8,902,861,000	100.0%
12. **Number of employees** (average over 12 month period of fiscal year.)	485,830	
13. **Number of shareholders** (average over 12 month period of fiscal year.)	601,174	
14. **Total Net Worth** (capital stock—preferred, common, etc.—and total retained earnings—surplus and reserves.)	$5,596,709,000	

BREAKDOWN OF THE MANUFACTURERS' SALES DOLLAR

RESULTS OF THE CANADIAN MANUFACTURERS' ASSOCIATION ANNUAL SURVEY FOR THE 10 YEARS 1948–1957

—	1948		1949		1950		1951		1952		1953		1954		1955		1956		1957	
	Thousands of $	%	Thousands of $	%	Thousands of $	%	Thousands of $	%	Thousands of $	%	Thousands of $	%	Thousands of $	%	Thousands of $	%	Thousands of $	%	Thousands of $	%
1. Net Sales	3,514,248	98.8	3,243,618	98.9	3,918,609	98.7	5,015,578	99.0	6,468,381	99.2	7,280,247	99.0	7,154,750	99.0	7,800,714	98.9	8,343,109	99.1	8,814,226	99.0
2. Other Income	40,666	1.2	33,680	1.1	51,162	1.3	53,004	1.0	54,752	.8	70,594	1.0	74,478	1.0	87,139	1.1	74,387	.9	85,168	1.0
TOTAL	3,554,914	100.0	3,277,298	100.0	3,969,771	100.0	5,068,582	100.0	6,523,133	100.0	7,350,841	100.0	7,229,228	100.0	7,887,853	100.0	8,417,496	100.0	8,899,394	100.0
3. Wages and Salaries	827,352	23.2	645,370	19.7	871,687	22.0	1,114,230	22.0	1,389,164	21.3	1,562,767	21.3	1,600,151	22.1	1,621,382	20.5	1,706,015	20.3	1,847,006	20.8
4. Employee Benefits	48,460	1.2	37,612	1.1	50,189	1.3	64,396	1.3	83,918	1.3	100,356	1.4	99,134	1.4	114,118	1.4	126,554	1.5	139,816	1.6
5. Materials	1,426,691	40.3	1,761,539	53.7	1,838,024	46.3	2,378,031	46.9	3,175,629	48.7	3,568,366	48.5	3,371,639	46.6	3,747,284	47.5	4,121,833	49.0	4,366,420	49.1
6. Excise and Sales Taxes	332,777	9.5	104,640	3.2	116,476	2.9	176,237	3.5	236,668	3.6	281,006	3.8	329,182	4.6	407,829	5.2	344,742	4.1	322,244	3.6
7. Other Expenses	376,944	10.8	334,456	10.3	488,733	12.3	587,946	11.6	755,576	11.6	839,006	11.4	919,517	12.7	903,958	11.5	985,128	11.7	1,131,178	12.7
8. Depreciation	141,655	3.9	92,051	2.8	126,312	3.2	156,122	3.1	221,242	3.4	277,229	3.8	241,188	3.3	259,513	3.3	273,371	3.2	297,021	3.3
9. Taxes on Income	173,941	4.9	113,675	3.4	194,344	4.9	297,675	5.8	333,786	5.1	337,656	4.6	293,976	4.1	370,243	4.7	372,068	4.4	328,888	3.7
10. Dividends	109,500	3.0	84,046	2.6	123,119	3.1	115,811	2.3	146,078	2.2	170,671	2.3	175,110	2.4	197,101	2.5	187,338	2.2	203,694	2.3
11. Retained in the Business	117,594	3.2	103,909	3.2	160,887	4.0	178,134	3.5	181,072	2.8	213,784	2.9	199,331	2.8	266,425	3.4	300,447	3.6	263,127	2.9
TOTAL	$3,554,914	100.0	3,277,298	100.0	3,969,771	100.0	5,068,582	100.0	6,523,133	100.0	7,350,841	100.0	7,229,228	100.0	7,887,853	100.0	8,417,496	100.0	8,899,394	100.0
12. Number of Employees	405,507	per-	249,745	per-	320,361	per-	335,560	per-	437,586	per-	457,537	per-	442,533	per-	463,169	per-	436,981	per-	441,034	per-
13. Number of Shareholders	478,507	sons	315,239	sons	264,728	sons	271,474	sons	359,407	sons	470,258	sons	645,350	sons	567,394	sons	572,940	sons	417,077	sons
14. Total Investments	$2,608,632		2,108,036		2,592,658		2,827,729		4,723,086		5,545,580		4,870,730		6,131,272		5,726,682		—	
NOTE Item 14 was changed in 1957 to read:																				
14. Total Net Worth	—		—		—		—		—		—		—		—		—		$5,048,052	
Correct Replies Received	851		483		709		733		1,009		1,003		1,100		1,043		1,023		1,069	
Companies Reporting Loss	n/a		n/a		n/a		n/a		117		112		n/a		116		104		139	

INTERPRETATION OF HEADINGS NOS. 1-14

1. **Net Sales** (that is, gross sales, less returns and allowances.)
2. **Other income.**
3. **Wages and salaries** (all wages and salaries including management salaries, directors' fees, payments to employees for holidays and in connection with profit sharing or production incentive plans, unless such payments are distributed only upon retirement of employees or some similar basis, in which case they are to be included in 4.)
4. **Employee benefits** (payments to pension plans, group life, sickness or hospitalization insurance, workmen's compensation, unemployment insurance, medical services, cafeterias, welfare funds, 25-year clubs, etc.)
5. **Materials** (including raw materials, finished and semi-finished parts, materials purchased for resale, materials consumed in processing or assembly operations, and packaging and shipping materials; but not including shop and factory supplies to be included in 7.)
6. **Excise and Sales taxes** (included in 1 above, remitted or to be remitted to Dominion and other Governments.)
7. **Other expenses** (including shop and factory supplies, power, water, municipal taxes, maintenance, repairs to buildings, machinery and equipment (not including salaries and wages or employee benefits included in 4 above), office, administrative and selling expenses not included above, including charitable donatoins and interest expense.)
8. **Depreciation.**
9. **Taxes on Income** (Dominion and Provincial taxes on income.)
10. **Dividends** (dividends declared on preference and common shares.)
11. **Retained in the business** (that amount of the year's income not paid out in dividends.)
12. **Number of employees** (average over 12 month period of fiscal year.)
13. **Number of shareholders** (average over 12 month period of fiscal year.)
14. **Total investments** (total assets less actual liabilities other than funded or long-term indebtedness.)

    Note: Item 14 was changed in 1957 to read:

14. **Total Net Worth** (capital stock—preferred, common, etc.—and total retained earnings—surplus and reserves.)

The CHAIRMAN: Honourable senators, I do not wish to appear to be rushing you, but the hour is getting late. Without further adieu I will call on Mr. A. H. Lemmon, President of the Dominion Mortgage and Investments Association to present the next brief.

Mr. Lemmon has with him Mr. Jules E. Fortin, Secretary-Treasurer of the association. Mr. Lemmon.

Mr. A. H. Lemmon, President, the Dominion Mortgage and Investments Association: Mr. Chairman,—

The Dominion Mortgage and Investments Association is pleased to accept the invitation of your Chairman to appear before this Committee and to make available such information as may be useful.

The Association is a voluntary organization composed of 25 life insurance, 15 trust, 6 loan companies and 1 savings bank. It was organized in 1916 and since then has provided a focal point to discuss and deal with matters of common interest to them, particularly in the field of investment. These companies are a major source of long-term credit in Canada. They invest in the bonds and other securities of Canada, its provinces, its municipalities and school districts. They finance public utilities, industrial and commercial enterprises in their long-term capital requirements. They provide a major part of the mortgage funds which assist in the construction and purchase of housing. While the Association does not include all of such companies operating in Canada, its membership represents the major portion of the business in Canada.

The members of the Association do business throughout the whole of Canada. Their assets in Canada at the end of 1958 were some $7,266 million which together with those in their hands for management belonging to estates, trusts and agencies of $5,393 million, aggregated $12,659 million of assets under administration.

These assets are funds entrusted to the companies by the public through the sale of life insurance and annuities, the deposit of moneys with loan and trust companies, the sale by these companies of their debentures and savings certificates and through the administration of estates, trusts and agencies.

Mr. Chairman, if I may digress for a moment: the excellent brief presented by our predecessor, the Canadian Manufacturers' Association, gave some idea of the numbers of people involved in these moneys. Essentially, these funds are the savings of millions of individuals, mostly people of small means, through their thrift, sacrifice or foresight in the past in order that they might provide for their dependents or might have the means of livelihood when their earning days are over or to achieve some special purpose at a given time. As custodians of this large volume of savings and in line with their sense of social responsibility the companies are conscious indeed of the ill-effects of inflation on Canadians in all walks of life as they are also conscious of the paramount importance of a stable dollar for the future of Canada and its progress.

Much has been said and much has been written on the subject of inflation. It will not be the purpose of this submission to re-state the symptoms of inflation or to review its dangers. Rather the endeavour will be to emphasize some of its aspects which we believe call for emphasis in the present circumstances.

It is all too apparent that the Canadian dollar does not buy as much now as it used to do, whether it be goods or services. The possibility that this loss in purchasing power may continue, or the fear that it will continue, gives rise to important questions. It is in respect to some of these that we wish to make this submission.

The loss in purchasing power which has taken place is substantial and may be close to the point where it will cast grave doubts on the desirability of saving in the minds of an increasing number of people. As yet, the loss of confidence in saving does not seem to have gained alarming proportions but we think it is serious enough to merit attention. It will be apparent to this Committee that insufficiency or lack of saving will have grave consequences not only in slowing down and severely restricting expenditures for capital purposes but in creating substantial unemployment and reducing the standard of living of Canadians.

It has been noticeable for some time that the investing public has shown an increasing tendency to invest in equities, real estate or other tangibles in preference to fixed dollar debt securities, notwithstanding the attractive yield of the latter. Among the many reasons for this is the belief or fear that the Canadian dollar will continue to lose in purchasing power. This tendency is not an absolute one as it will vary from time to time depending upon a variety of factors including the opportunity for capital profit, questions of taxation, supply and demand in the capital markets, etc. and would seem to be most apparent with respect to government securities. The weakness of the bond market since last summer and the continuing uncertainty in that market is a case in point. Pressures are developing on our member companies to direct their investments away from their historically fixed interest channels to larger proportions of equity investments of one kind or another. As long as this pressure exists as strongly as it does at the moment, the managements of our member companies must give some heed, or savings will be diverted to competing kinds which lay more stress on their inflation-hedge properties. In either event, this pressure has a tendency to reduce the amount of funds available for investment in fixed income securities. Fixed dollar debt obligations play an important part in financing the credit needs of corporations, of government and municipalities and of individuals. If the investing public loses confidence in intermediate or long term fixed dollar debt obligations much of the growth and expansion in the Canadian economy will be arrested and must of the social capital required such as housing and institutional construction, transportation, drainage, water and sewerage works, light and power, schools, hospitals, etc. will have grave difficulty in finding financing.

For the above reasons and for other reasons which undoubtedly will have been brought to your attention, we believe that action is called for, designed to restore such of the confidence in the purchasing power of the Canadian dollar as seems to have been lost and to maintain such confidence at a high level. To do this will require the achievement of stability in the level of prices and, in so saying, we do not imply that the level of prices must remain constant but rathere that there will be times when it will rise or fall depending upon the circumstances of the times. The economy is a complex and delicate mechanism and is subject to the pressures of opposing forces at any given time, some inflationary and some deflationary, some internally generated and some externally generated. We believe that these forces should be and can be modified by the application of suitable measures. This is a continuing process. It is recognized that the suitability of any measure at any given time will depend on the situation existing at that time in relation to the potential of inflation or deflation. At the present moment, the threat of inflation is, perhaps, of greater importance than the actual amount of inflation that is taking place. It is quite true that the Consumer Price Index has remained practically steady for the last six months, but the action of the stock market and of the real estate market, plus the ballooning demands for credit in all sectors of the economy, show that the threat of a further upsurge in price level, such as took place from 1956 to 1958, is a very real one as unused capacity and idle labour become engaged in production. To convince the people of Canada that

inflation is not inevitable, and that indeed it is detrimental to the well-being of the country from a long-term point of view, is therefore an extremely important requirement. In this regard, we believe the following points are worthy of very serious consideration:

1. The expansion of the money supply in the country should be keyed to a sustainable level of growth and watched very carefully that it does not go beyond the real productive capacity of the economy. This will at all times, of course, be a subject of grave difference of opinion, but we believe that the intent should continue to be re-stated as definitely as possible.

2. All interest rates should be allowed to fluctuate freely in order to perform their normal function of directing capital. Any interference with this normal pattern tends to bring on distortions and create more problems than it solves.

3. The current deficit of the Federal Government has come to be associated in the minds of most people with the possibility of inflation. The Government should, therefore, take steps to balance current revenues and expenditures so as to demonstrate its firm intention to safeguard the long-term value of the dollar. Something more than lip service is necessary to convince the Canadian people that the authorities mean business in this regard.

4. The above remarks would apply with equal force to Federal Government expenditures outside the current budget. The Government's cash deficit is of even more importance than its budgetary deficit because of the added pressures on the capital market. It is quite realized that loans are from time to time necessary to different bodies for certain specific purposes, but the authorities should be constantly aware of the effect of making such advances in the minds of the Canadian people.

In putting forward these points, we are not advocating a policy of deflation. We do not believe that relatively high-level employment and reasonable price stability are incompatible. Rather, we support the adoption of policies aimed at relieving the pressure of demand for goods and services when such pressure arises in an endeavour to halt further increases in the level of prices to the end that ultimately a decrease might be experienced. Even if not entirely successful in this endeavour, such evidence of a desire to maintain the purchasing value of the dollar can go a long way in restoring confidence in the dollar.

Success against the potential of inflation cannot be achieved solely by government, or solely by monetary management. It requires as well the wholehearted co-operation of every Canadian whether he be a consumer, a producer or whether he be engaged in labour, management or finance. Each must conduct himself in such manner that price increases are resisted. The many organized groups which are tempted to exert pressure on government to obtain benefits of one kind or another at the expense of the rest of the people must resist that temptation and government must give less weight to so-called political considerations and more weight to economic considerations in arriving at decisions whether or not to incur expenditures. Government must provide statesmanlike leadership. It is recognized that we are not immune to developments beyond our borders but we should conduct ourselves that we do not generate inflation by our own actions. If more Canadians recognized the grave danger of inflation, more might be prepared to view the situation in its long-term aspect and be prepared to forego immediate advantage. If all were to recognize that the Canadian way of life will be jeopardized by inflation, one

could hope that a more responsible approach to wage demands, fringe benefits, price-setting and profit margins might follow. With a stable dollar, we can look forward to an increasingly healthy economy to the benefit of all Canadians.

The CHAIRMAN: Thank you, Mr. Lemmon. Honourable senators, we will now throw the meeting open to any questions you would like to direct to Mr. Lemmon.

Senator HAIG: What rates are you lending your money at now? What is the standard rate?

Mr. LEMMON: On what sort of security, sir?

Senator HAIG: On a reasonable house security in a city or town with a population of over 100,000.

Mr. LEMMON: Do you mean our particular company, because I cannot tell you—

Senator HAIG: I thought you represented the whole association.

Mr. LEMMON: I do, but our association has no control or influence over, nor do we have any information about, what all our member companies are charging for their money. That is their individual policy, and we do not clear that through our association at all.

Senator HAIG: You advertise your money in my town at 7½ per cent.

Mr. LEMMON: That would be one company.

Senator HAIG: No, more than one company.

Mr. LEMMON: The association as an association has no information on, and has nothing to do with, the lending policies of the individual companies. Each one sets its own.

Senator CROLL: What is the going rate other than under NHA?

Senator LEONARD: And you are speaking of your own company now?

Senator CROLL: What is your own company?

Mr. LEMMON: The Canada Life Assurance Company.

Senator CROLL: That is big enough.

Mr. LEMMON: Generally, it is 6¾ to 7 per cent for a good class conventional loan. Other companies set their own rates, and I do not know what they are.

Senator HAIG: That is more than what it was five years ago, say?

Mr. LEMMON: Five years ago would be 1954. Yes, I would say it would be more than five years ago.

Senator REID: At the bottom of page 2 of your brief you say:

> It has been noticeable for some time that the investing public has shown an increasing tendency to invest in equities, real estate or other tangibles in preference to fixed dollar debt securities notwithstanding the attractive yield of the latter.

Have you found that many of your clients have been investing in gold?

Mr. LEMMON: I believe one of the Canadian chartered banks has made it possible to invest in gold through the Canadian Stock Exchange, but personally I have not found many individuals who have.

Senator POWER: In your fourth suggestion on page 5 you say:

> The above remarks would apply with equal force to federal Government expenditure outside the current budget.

May I ask just what is meant by that?

Mr. LEMMON: I believe when the Minister of Finance brings down his budget he does so in two parts. There is the current budget and on top of that there are loans to Crown corporations and other bodies of a similar nature. It is that distinction I am making there.

The CHAIRMAN: Any other questions?

Senator SMITH (*Queens-Shelburne*): Mr. Lemmon, at the bottom of page 4 when you suggest that all interest rates should be allowed to fluctuate freely, do you have in mind particularly that the Government or legislative ceiling placed on the lending capacity of loans made by banks should be taken off, and that the interest rates should be allowed to fluctuate according to market demands?

Mr. LEMMON: That is one thing.

Senator SMITH (*Queens-Shelburne*): What else did you have in mind?

Mr. LEMMON: The interest rate on the National Housing Act loans.

Senator SMITH (*Queens-Shelburne*): Do I take it you are quite content with the present fluctuation in the Bank of Canada interest rates?

Mr. LEMMON: I believe it is quite free to fluctuate, as it will. I don't think there is any restriction on that.

Senator SMITH (*Queens-Shelburne*): Do you think that is a good thing?

Mr. LEMMON: I do, sir.

Senator SMITH (*Queens-Shelburne*): It has been suggested that the bank rate should be directed more closely by the Government through the Bank of Canada. I think that suggestion was made in one of the briefs we had from the chartered banks.

Mr. LEMMON: That is a little different. I forget the exact technical term but the Bank of Canada's published rate is not a market rate at all. At the moment it is tied to a market rate of interest and the suggestion has been made it should not be.

Senator SMITH (*Queens-Shelburne*): That is right.

Mr. LEMMON: But it in itself is not a market rate of interest. It is more be a market rates of interest that I am referring in this paragraph.

Senator BOUFFARD: Do you suggest that bank rates should be completely free of any ceiling?

Mr. LEMMON: It is the belief of our Association that a ceiling is an artificial thing, and that if any rate of interest is to perform the function of a market rate then there should be no artificial limitations one way or another on it.

Senator BOUFFARD: Would you not be afraid that the banks would charge too high interest rates if they had control in that respect? For instance, I think it would be more realistic for the bank rates to have a ceiling which would compare favourably with the interest rates charged to the Canadian Government. Lending money to the Canadian Government at 5½ per cent to 5¾ per cent and having the lowest rate on other loans at 6 per cent, is not realistic at all.

Mr. LEMMON: I agree with that.

Senator McLEAN: We have a limit on the interest rates on some types of loans. It is high enough. And, of course, we have a limit on bank loans. Would you believe in taking the ceiling off interest rates on all loans and let them get whatever they want? Would you let the loan sharks just run wild?

Mr. LEMMON: I quite realize there is a limit on some loan companies. There is also a market for loans outside of that, which is not subject to any limitation at all. You know as well as I do, sir, that in the second mortgage market in a number of cities across this country the rates go well outside normal credit rates.

Senator McLEAN: Higher than 20 per cent?

Mr. LEMMON: Yes.

The CHAIRMAN: What is that, on short-term mortgages?

Mr. LEMMON: Without going into the details too greatly, we have knowledge where people will borrow on second mortgages on their houses at a nominal rate of interest of 8 per cent or some other rate. That does not really matter too much, but they only realize 75 per cent of the face value of that loan in cash. If you calculate the effective rate of interest of that it becomes very high indeed. Therefore, I say that any ceiling that is put on by legislative action just pushes things out into the black market.

Senator LEONARD: Your idea is that it would be a better thing for lending institutions such as chartered banks to be free to make the kind of loans they are not as free to make as some other organizations, and the present effect is to raise the interest rates outside those of the chartered banks.

Mr. LEMMON: I believe that is true. In other words, if chartered banks and other lending institutions were free to make loans on this other type of credit, there would not be this black market, if you like to call it such.

Senator CROLL: Mr. Lemmon, you know that the banks are limited to charging an interest rate of 6 per cent on certain loans. That is the bank rate. You also know that the majority of banks in Canada operate now in the small loan field and charge a rate that is approximately 11 per cent. Do you know that?

Mr. LEMMON: I believe that is right.

Senator HAIG: There are conditions to be applied there. There has got to be insurance to back up the small loans.

Senator CROLL: No.

Senator HAIG: Oh, yes. I know that for a fact.

Senator CROLL: You take whatever security you like. In any event, let us not get into that. It has been established that as a matter of practice there are two rates now in existence.

Mr. LEMMON: Yes. One bank has been in it for a long time and other banks are getting into it increasingly.

Senator CROLL: Yesterday it was agreed that the majority of the banks were in the business. I think there are only two that are not in it.

Senator BURCHILL: There has been a lot of interest in the briefs presented before this committee in what has been called fear psychosis and the desirability of restoring confidence of the public in the Canadian dollar, and so on, We know that people buy common stocks and pass up other securities because they fear things are going to be worse in the future. Would you care to comment on what we have been told, that one of the things that has contributed to this fear perhaps more than anything else has been the drop in the market price of the Government bonds that were converted last year? People paid 100 per cent for them and when they went back to their banks a short time later their bank managers told them they could only get 94 or 95 per cent on them. Is that one of the big things that has created this fear?

Mr. LEMMON: Mr. Chairman, it would take at least half an hour to answer that question. There is a bit of a question as to which came first, the hen or the egg. Did the fear cause the drop, or did the drop cause the fear? You must put yourself back in time and consider the question in the circumstances of about one year ago. At that time the recession was in full force and effect in this country and in the United States. If you had read the forecasts of economists in the early months of 1958, the thing that was foremost in their minds was the fear, "Will this recession go very far, and how deep will it go?" But we now know that the turn was then taking place, although it was not evident at that time. When people realized that the turn had come, that the

down-turn of the recession had changed into an upward turn in business, their attention promptly swung back from fixed interest securities to equities. The turn first came in the United States. The drop in the United States bond market took place about June 15, 1958 and the drop in Canadian bond prices did not take place until some time after that. What caused that break was a collection of circumstances arising partly out of the conversion loan, partly out of the situation that arose in the United States bond market at that time, partly on the change in attitude of the Canadian people towards the future outlook for business—it is not possible to point to any one thing and say that it caused it.

The CHAIRMAN: I believe at that time that United States Treasury bonds fell to a price of around $81.

Mr. LEMMON: That is so.

The CHAIRMAN: And that decline took place prior to the fall in the price of Canadian bonds.

Mr. LEMMON: Yes, some months before.

The CHAIRMAN: I think you will agree that the economy of Canada is tied in so tightly with the economy of the United States that any decline in United States bond prices would not be long before it was reflected here?

Mr. LEMMON: There is no question about that.

Senator SMITH (*Queens-Shelburne*): What were the interset rates on those bonds that you were just talking about, Mr. Chairman?

The CHAIRMAN: Three and a quarter per cent.

Senator SMITH (*Queens-Shelburne*): And these Canadian bonds were 4½ per cent?

Mr. LEMMON: The American bond market went down first and our Canadian bond prices declined shortly after.

The CHAIRMAN: Honourable members, we have another long brief to be presented, and so I wish to thank Mr. Lemmon now for his fine presentation. I am sure we all are much more informed as a result, and I may say that the brief will be of value in our study.

I will now call on Mr. Parker, president of the Manitoba Pool Elevators, to present his brief to the committee.

Mr. W. J. Parker, President, Manitoba Pool Elevators, was called.

Mr. Chairman, and honourable members of the Senate, may I say that I appreciate very much your invitation to present our views before this committee. The decision to make representations was made by my board because the members may be somewhat frustrated and confused because of the price-cost squeeze as we call it in Canada. Many of us believe that is due to what we commonly call the inflationary trend. I was instructed to prepare a brief and make the presentation to the committee, Mr. Chairman, and I may say that I had help in preparing this brief, as the association was not equipped in time or staff to do so. Assistance was extended to us by the Department of Agriculture and Economics of the University of Manitoba. But I take full responsibility for everything stated in this brief.

The organization I represent, Mr. Chairman, has slightly more than 30,000 active participating farmers, and I am speaking on behalf of all of them.

Canada enjoyed good times in the post World-War II years. It shows up in many ways in our economy. Employment in the main was high, overall output of goods increased, development of our natural resources progressed at an unprecedented rate, and our foreing trade more than doubled. Associated with

these economic successes, and despite two periods of economic recession, prices moved upward in almost all sectors of our economy. In the 1947-58 interval, the general wholesale price level rose by 39 per cent.*

In view of our overall position and achievements, many do not regard this rise in prices in the 12 year period as a serious threat to the welfare of our economy. At the same time there are many of our people concerned about dangers to our economy as a result of the continuing general rise in prices. They point to weaknesses in the bond market, to increased interest rates and to the rise in prices for common stocks as a manifestation of the public's fear of inflation.

We, in Manitoba Pool Eelevators, regard this investigation by your Committee to be timely and important. We recognize the need for a greater and more widespread understanding by those in authority and by the general public of the forces and processes that lie behind continuing price rises and their consequences to our economy. Such understanding, we believe, can lead to adoption of policies and action programs consistant with sound national goals, thereby establishing confidence in the economic environment for savings, investment and general economic stability.

As representatives of Western Canadian agriculture, we have a further interest in your Committee investigations. We are concerned with the fact that agriculture in general and prairie agriculture in particular is not sharng commensurately in the national economic fortunes. We note that price changes since 1951 have largely been adverse for agriculture. Farm prices generally declined, while non-farm prices rose, or there was a disproportionate overall price rise unfavorable to agriculture, producing the commonly known "cost-price squeeze" for farmers. We feel this is an aspect that your Committee will want to study. In this brief, we propose to examine the significant factors which we regard as important forces in producing the unfavorable position in agriculture.

Definition of Inflation

The growing fear of inflation appears to be tied to the continuous upward movement of prices. This is the commonly accepted view of inflation. Acceptance of this view, as an explanation of inflation, would fail to recognize certain features associated with price movements which, in turn, would impede sound appraisal of the problem. Inflation has been defined in many different ways which makes a simple definition difficult. We feel, however, that a definition is necessary to provide a basis for discussion, even if it is somewhat involved.

First, we accept the straightforward statement that inflation is a condition of generally rising prices, resulting in a decline in the purchasing power of money. In these terms, however, we lack any basis to determine whether inflation is good or bad. In view of this, it is necessary to consider the nature of the price rises.

Generally, the problems that spring from inflation originate with the disproportionate increases in the various prices for goods and services, their implications on income receivers faced with the declining purchasing power of money, and the associated lack of confidence and undesirable distortions in the economy. Viewed in this light, inflation can be regarded in its full implication rather than solely as a condition of "too much money chasing too few goods".

All statistical material included in this brief was taken directly, or calculated from reports and publications issued by the Dominion Bureau of Statistics, Ottawa, unless otherwise specified.

Changes in the Canadian Economy

A review of the changes that have occurred in the Canadian economy since 1947 seems desirable at this point as a preface to an examination of the effects of inflation. We have selected the year 1947 as the starting point, since most prices were decontrolled in Canada by that time.

Between 1947 and 1958, the general wholesale price level rose 39 per cent and the consumer price level rose 48 per cent. Both exhibited a decline for a year or two midway in the period, then rose continuously on the annual average. Actual weekly wages in industry rose 95 per cent, displaying an upward movement throughout the entire period. At the same time, the money supply in the hands of the public rose by 82 per cent, in continuously increasing amounts, and the volume output of industrial products increased by 48 per cent.

Compared to the overall economy, the changes in agriculture present a different picture. Largely due to crop conditions, the physical volume of agricultural production increased at varying rates, reaching its highest point in 1956, with an increase of 46 per cent over 1947. Wholesale prices of farm products rose 14 per cent, which is the net of a 12 per cent decline in the prices for field products and a 37 per cent rise for animal products.

The movement of farm prices, however, was not continuous. The increases occurred mainly until the mid 1950's. Since then, the net change has been a decline of 27 per cent in prices for field products and 18 per cent in the prices for animal products. The cost of goods and services used by farmers, however, increased by 52 per cent. The trend was upward in all years except for a small decline in 1954 and 1955.

Consequences of Inflation

Before passing on to a more detailed investigation of some relevant problems, we wish to make a few general observations about inflation.

Inflation is caused, primarily, by upward pressure on prices, either by buyers or by sellers. Buyers push prices up by bidding among themselves for a limited, and not easily expandable, volume of goods and services. Sellers push prices up by restricting supplies, or by acting in unison, to avoid bidding among themselves for the buyer's dollar, which in many cases amounts to the same thing.

It is relevant here to distinguish between three types of buyers, whose action may cause prices to rise: (a) Government, (b) The public, (c) Foreign investors.

The Government does create pressure on demand by its defense projects and the development of natural resources and public amenities. It also intensifies the demand of other buyers through that portion of its social and welfare expenditures which is not offset by corresponding tax revenues.

The public is likely to create an upward pressure on prices, when there is an increase in public and private borrowing, via bank-created deposits. This creates a generally optimistic economic atmosphere, and a tendency for less savings on the part of the public.

Lastly, foreign investors create a pressure on prices when they invest in the domestic market. Such an action will normally, through the "multiplier effect", generate total additional demand far in excess of the initial expenditure.

We wish to stress, however, that a rise in demand for any of the aforementioned reasons need not lead immediately to a corresponding rise in prices. Idle resources and idle productive capacity can initially absorb such pressure, before prices start responding to it. Increased private and public expenditures are, therefore, beneficial to idle resources, in that they are conducive to full employment. Nevertheless, the capacity of idle resources to

absorb initial pressures on demand appears a more complex matter than has been traditionally believed. For one thing, sellers, no matter whether they sell goods or labour services, who are in a position to exert enough control over their aggregate supply, many deliberately refuse to allow full utilization of their productive capacity. With a continuous increase in demand, prices of such controlled industries will start rising sooner than they would have done under conditions of free competition. Sellers in industries characterized by free competition, e.g., agriculture, have no power to raise their prices with the increasing demand until their production capacity has been fully used. Producers in these freely competitive industries, who have to buy from the controlled industries, are "squeezed" between rapidly rising costs and slowly rising prices.

Where sellers are in a position to "administer" their prices, due to limited competition, even in the face of stable demand, they can refuse to sell their products or services unless prices are raised. This is the price-push type of inflation by sellers. Buyers then face the choice of curtailing their purchases or cutting down on their spending elsewhere. In either case some resources will become idle, both in the industry which raised its prices and in other industries. Before too long, that industry may realize that other industries with similar powers have followed suit, and it is compelled to pay higher prices than before for its services and materials. This would partially offset its gain from the initial rise, and thus a second cycle of sellers' price rises may ensue.

The process cannot continue indefinitely without hurting the sellers themselves, since with increasing unemployment, consumer purchasing power and investment will fall and so will sales. At this stage, the Government may feel compelled by political pressure to step in and relieve unemployment by increasing its spending. The boost to employment by government spending may then also revive the sellers' price spiral and lead to a still further aggravation of the inflationary pressure.

The power to administer prices, alien to a free competitive economy, aggravates the problem of inflation, which otherwise is associated mainly with the supply of money and the rate at which buyers spend their income.

Now, how bad or good is this condition of generally rising prices?

Obviously to some extent, the answer depends on whose position is observed. Inflation normally entails redistribution of income and wealth. Receivers of fixed income—such as renters, pensioners, etc.—and creditors lose during inflation in favour of debtors, owners of real estate and receivers of flexible incomes.

Inflation erodes savings. As the public becomes aware of such a danger, it will change its spending habits, increasing consumption. This, in turn, may result in the diversion of resources from industries of producers' goods to industries of consumers' goods, with an adverse effect on economic growth. It is also possible that the public will react to the erosion of savings by holding more common stocks and less bonds. This will make it more difficult to obtain capital for essential public development-projects, e.g. schools, roads, etc. Insurance companies and banks which normally hold a significant proportion of their assets in bonds will find their wealth deflated, with all its adverse consequences.

Inflation has a tendency to disguise inefficiency in production. Businesses, ordinarily sub-marginal, will find a profitable position under conditions of inflation. Then, too, as buyers become more eager to buy and less discriminative, quality standards may deteriorate, bringing socially undesirable consequences.

Producers, who are caught between rapidly rising costs and slowly rising prices, will be induced to seek relief in greater efficiency and technological change. In the absence of power to restrict aggregate supply of industry, how-

ever, the benefits of these changes will ultimately be transferred to buyers, and the squeeze will be more strongly felt by those producers who are slow to readjust. In industries where relative prices are rising rapidly, product development and innovation are likely to be arrested.

Ordinarily, inflation in a country would cause an increase in the demand for foreign goods and would tend to decrease its exports. Consequently, its rate of exchange falls in favour of foreign currencies. The burden of both the private and public external debts of this country become harder to bear. If, however, this country imports large amounts of foreign capital, its currency will rise even to where it may be at a premium in terms of foreign currencies.

Finally, there always exists the danger that the exhileration of inflation may lead, via the acceleration principle, to over-expansion of productive capacity, and ultimately to collapse, depression and unemployment.

It is generally agreed that galloping inflation is an evil which must be avoided. There is not, however, general agreement among economists as to the possibility of attaining economic growth without some moderate measure of inflation. We submit that, in the absence of restrictive practices and with a proper control of the supply of money in the economy, the expansion of demand can be closely tied up with rises in productivity and output, without a significant measure of unemployment. We regard this as the major long-run objective of economic policy.

There are several measures which can be used in conjunction to effect such a policy, notably:

(*a*) Monetary policy; the control of the stock of money through the banking system (i.e., selling government bonds to the public and the banks, etc.).

(*b*) Credit policy; adequate control of consumer and investment credit.

(*c*) Fiscal policy; the proper and timely use of budgetary deficit and surplus during periods of depression and inflation.

(*d*) Effecting price restraints (by persuasion, legislation against restrictive practices, arbitration and even intervention in wage disputes, etc.).

(*e*) Productivity campaign (based on publicity, pecuniary incentives, etc.).

(*f*) Implementation of built-in stabilizers, such as unemployment insurance, etc.

The foregoing measures, even when used jointly, are subject to limitations, in our opinion. Among other things, their full effects are hard to predict, particularly with respect to time-lags. It is also hard to identify undesirable developments in time. Consequently, if in practice, depression is to be avoided at all costs, some moderate inflationary pressure may at times be inevitable. Should this happen, the Government must take steps to compensate those segments of the economy which are unjustly taxed by such inflation.

Inflation and the Farmers' Cost of Production: You will note, by the way, Mr. Chairman, that this brief is slanted towards the effects that inflation has on the farmers. The composite index of prices of commodities and services used by farmers has risen from 230 in 1951, to 263 in 1958, an increase of 33 points. There is no doubt that the increase in the prices which farmers have to pay for their production requirements has increased their total costs of production. While the farmer's total costs have risen, this does not necessarily mean that the farmer's costs per unit of output have increased. Unit cost of production may actually have decreased due to a more than proportionate increase in productivity. And, I interject here to say that farm prices have been declining since 1951. It may be illustrated in this way:

given a constant price for wheat (actually farm prices have been declining since 1951), 3,000 bushels of wheat would have purchased a given tractor in 1951. According to the rise in prices which farmers have had to pay, it would have required 3,430 bushels of wheat to purchase the same tractor in 1958.

Other things constant (farm product prices, farm productivity, etc.) there is little doubt that a rise in the farmer's index of costs leaves the farmer worse off. However, before it can be finally concluded whether farmers are worse off or not, several aspects of the farmer's index of prices paid must be examined.

First of all, the index of costs not only measures the overall rise in prices, but it also reflects the quality of the goods and services purchased by farmers. If the quality of the goods and services which farmers buy improves, and this seems to be the case, prices which farmers pay would rise in the absence of inflation. Thus, any interpretation of the index of costs must recognize the improvement in quality, as well as the inflationary aspect of the prices of these goods and services. Agricultural machinery, for example, has had many improvements (and many gadgets have been added) in the last decade.

The inflationary rise in the prices of things which farmers buy may be offset by greater productivity. To use the example quoted, a farmer may have raised 3,000 bushels of wheat in 1951, but due to an increase in size of farm, as well as some increased productivity per acre, the unit cost of production may be lower apart from inflation.

If the farmer could retain the benefits of his increased productivity, he would obviously be better off in spite of the inflationary rise in his index of costs. It will be argued elsewhere in this brief, however, that the productivity gains in agriculture tend to be ultimately passed on to the food consumer through lower prices.

Data in Table 1 show the cash farm operating expenses and depreciation charges as a percentage of the total gross farm income for the three prairie provinces.[1] It will be noted that the cash operating expenses and depreciation charges as a percentage of gross farm income have been increasing since 1951. A significant part of this increase can be attributed to the inflationary rise in the index of prices of commodities and services used by farmers.

The increasing proportion of the farmer's gross income which goes for cash operating expenses and depreciation charges, accounts for the farmers' feeling that "We are handling more money each year, but seem to have less to live on"!

Table I—Cash Operating and Depreciation Charges as a Percentage of Gross Income, Agriculture 1926-1957

Year	Manitoba %	Saskatchewan %	Alberta %
1926	49.8	48.5	47.5
1927	71.4	48.7	41.4
1928	53.4	48.4	50.0
1929	72.9	76.0	64.5
1930	71.3	84.5	70.8
1931	120.9	142.4	88.8
1932	84.8	103.6	85.6

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(1) It must be noted that the percentage difference between gross income and the cash operating expenses and depreciation charges is not a direct indication of the profitability of the farming operations. The returns above the cash operation expenses and depreciation charges must cover the interest on the farmer's investment, family labor and the farmer's own labor and management.

Year	Manitoba %	Saskatchewan %	Alberta %
1933	93.8	114.6	92.4
1934	72.6	102.3	69.5
1935	79.4	82.7	73.0
1936	68.5	91.1	81.6
1937	43.1	150.6	56.7
1938	55.4	79.5	50.5
1939	55.6	53.1	54.7
1940	52.6	57.2	49.9
1941	49.7	69.1	60.1
1942	36.7	36.4	36.2
1943	38.9	51.5	54.2
1944	37.1	33.6	37.4
1945	46.8	47.5	46.3
1946	44.8	47.8	43.8
1947	42.1	46.2	43.8
1948	35.1	38.2	36.9
1949	40.4	38.6	40.7
1950	47.5	49.7	47.5
1951	40.8	34.9	37.6
1952	46.0	37.6	41.9
1953	53.3	40.6	45.8
1954	62.9	67.1	55.1
1955	58.3	51.5	54.7
1956	51.6	41.7	49.0
1957	64.6	62.0	58.1

Farm Technology and Relation to Inflation:

One of the best ways to reduce the impact of inflation is to raise the productivity of the total economy. Any demand (consumer, private and public investment) in excess of the available supply of goods and services tends to be reflected in an increase in the general price level. There are two primary ways in which the general price rise (inflationary gap) may be curbed: either by reducing the demand through various monetary and fiscal policies or by increasing the supply of goods and services.

One very important defence against inflation is that of raising the productivity of our existing land, labour and capital resources. Increased productivity of these resources will tend to curb inflationary pressures only if the gains in productivity are fairly well distributed throughout the economy. Increases in the productivity of a particular industry may be:

(a) Retained as profits for that industry;

(b) Distributed to the labour force of that industry;

(c) Passed on to the consumer in the form of lower prices.

The possibility exists in some industries to retain a large proportion of the gains in productivity as "profits". This type of industry is characterized by its power to bargain with labor, and its ability to use the "administered price" for its products. In other industries, particularly where labor unions have a strong bargaining position, it is possible for the labour group to capture a large proportion of the productivity gains through higher wages. In still other industries, primarily those characterized by a high degree of

competition and a relatively unyielding demand for their product, increases in productivity are ultimately passed on to the consumer through lower prices. The agricultural industry is a good example of the latter situation.

Tremendous gains have been made in the productivity of the agricultural industry during the last two decades. Science and technology have greatly increased the productivity of crops and livestock. Coupled with the increased productivity of crops and livestock, mechanization has increased the productivity of labour in farming. There has been an increasing output in agriculture concurrent with a declining labor force.

Data in Table II indicate that the gross physical product per man-hour in agriculture increased by over six per cent per year for the period 1935-39 to 1955. This figure may be compared to the general increase in labour productivity in the rest of the economy of approximately three per cent per year.[2]

Food is a strategic item in any defence against inflation. If the benefits of the productivity gains in agriculture could be retained by farmers, the index of food prices would be significantly higher than at the present time. There is substantial evidence to believe, however, that any increase in farm productivity is ultimately passed on to the food consumer in the form of lower prices.

Table II—Labour Productivity in Agriculture (1935-39=100)[3]

Year	Gross Physical Product Per Man-Hour
1935-39	100
1946	142
1947	145
1948	158
1949	161
1950	194
1951	242
1952	259
1953	248
1954	181
1955	248
Average 1951-55	236
Average 1947-55	204

Several major factors account for this situation:

(1) Agriculture is a highly competitive industry. It is difficult for thousands of small producers to act en masse for a common goal for the industry as a whole.

(2) There is a highly inelastic demand for food.

(3) There is a persistent tendency to over-production.

These factors together make it very difficult for farmers to retain the benefits of the increased productivity of their industry.

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(2) Source: Preliminary Report; Royal Commission on Canada's Economic Prospects. Page 9.

(3) Source: Drummond, W. M. and MacKenzie, W., Progress and Prospects of Canadian Agriculture. Page 90.

The highly competitive nature of agriculture tends to force prices down to equality with the costs of production. To put it another way: cost reductions or productivity gains in agriculture are rapidly passed on to the consumer in the form of lower prices. It is misleading to argue that all of the public expenditures on agricultural programs accrue to the benefit of the farmers as a whole. As a matter of fact, we believe that most of the public expenditures to increase the physical productivity of agriculture ultimately benefit the food consumer.

To argue then, that any inflationary rise in the costs of goods and services which farmers buy is more than offset by the productivity gains in agriculture is largely erroneous in the long run. In other words, inflation represents a "direct tax" on agriculture.

There is a growing tendency in many industries to shift the incidence of inflation or to undertake certain countervailing actions. Labor unions, for example, are attempting, quite successfully in many instances, to reduce the impact of inflation by attaching wages to the cost-of-living index through the wage "escalator clause". The industrial employer can reduce the impact of inflation by either reducing the amount going to labor, or by raising the prices of their products. In the past industrial employers tended to bargain quite strenuously with the labor groups. Recently, however, there appears to be a strong tendency for the industrial employer to place a "mark-up" on any demands made by labor and to pass it on in the form of higher prices. Thus there is a greater tendency toward the "wage-price spiral" type of inflation.

The labor sector of our economy exercises a countervailing power to inflation by negotiation, strike, escalator clauses, guaranteed annual wages and concessions on fringe benefits. The defense of the business sector against inflation is negotiation, bargaining, the administered price and the inflation "mark-up". The agricultural industry, by contrast, is in a very vulnerable economic position. Farmers can do little to negotiate or to bargain with the industries from whom they buy. They are relatively helpless in setting an "administered price" for their output to compensate for the rise in the prices of the goods and services they buy.

Government actions, such as sales taxes and unemployment insurance, contribute further to the burden of inflation on the farmer. These, while levied on business, are ultimately passed on to the farmer by processes already described. They are insidious since, even though they are levied for specific purposes on other sectors of the economy, in some measure they eventually are transferred to the farmer and he cannot pass them on.

It is difficult to determine what should be the fair share of the national income going to the different sectors of the national economy. As an economic growth occurs, there will certainly be a redistribution of the national income. There can be no disagreement with the statement that the agricultural industry will share relatively less of the national income as economic growth takes place. It is unfair to expect, however, that, because of the peculiar nature of the agricultural industry, inflation, a phenomenon to which most sectors of the economy are contributing, should represent a "tax" on farmers.

Inflation and the Demand for Farm Products

The level of farm prices depends on demand and supply conditions, including the general price level. The degree of influence of any single factor on farm product prices is difficult to determine, but the probable nature of that influence must be considered in assessing the implications of inflation for the prices of farm products. Factors that warrant particular consideration are the nature of demand, supply, and marketing costs and the connection between domestic and foreign markets.

Nature of Demand for Farm Products

The effect of inflation on the demand for food depends on what happens to incomes during inflation. Incomes generally rise in dollar terms, but real incomes in terms of purchasing power do not rise as much as money incomes. Whether or not consumers realize that their real incomes are not increasing as much as their money incomes, they will continue to buy nearly as much food as before, even if food prices rise, because the demand for food is unyielding with respect to price. If real income increases, the demand for food will increase also, but not as much as the demand for all goods, because the demand for food is inelastic with respect to income.

Inflation also changes the distribution of income and reduces the purchasing power of many people whose money incomes are relatively fixed. This may increase the inequality of income distribution and reduce the demand for food by transferring purchasing power from lower income groups, who spend a higher percentage of their incomes on food, to higher income groups who spend a smaller proportion on food.

Nature of Supply of Farm Products

The aggregate supply of farm products is relatively inelastic. Hence, a moderate increase in demand resulting from inflation would ordinarily raise farm prices. Technological advances in agriculture, however, have a depressing effect on farm prices, as these produce an excessive supply of farm products.

Agriculture, one of the most freely competitive industries, can neither raise its prices beyond the level determined by supply and demand during inflation nor prevent price declines by restricting output during depression. Many other industries, whether their prices advance as much as, or more than those of agriculture in and inflationary period, appear better able to resist a price decline when inflation is halted or reversed by virtue of the fact that they can control their output.

Nature of Marketing Costs

Marketing costs are more stable than retail prices. Therefore, a given increase in demand causes a greater increase in farm price than would occur if marketing costs changed in proportion. The greatest disadvantage to agriculture occurs when prices subsequently fall. Marketing costs do rise during inflation, but when prices fall marketing costs generally do not. As a result, farm prices fall further than they would if marketing costs were more flexible.

During the current period of inflation in Canada, prices paid by consumers for farm products have been rising largely because marketing costs have been rising. Since 1954, the consumer food price index rose by nearly nine per cent by 1958, while the index of farm prices rose by barely two per cent. The result is that farm prices are not now keeping pace with inflation.

Relation Between Domestic and Foreign Markets

Price increases for farm products will be limited if additional supplies can be imported. The availability of imports will limit possible price increases for cattle and hogs to the level at which they can be imported from the United States. Many non-farm products are protected to a greater degree by tariffs than are farm products and their price advances will not be limited as quickly by import competition.

For farm products largely dependent on export markets for an outlet, the price is determined by forces of the world market and not by inflation in Canada. Wheat prices would not advance in response to general price

increases within Canada. Wheat producers will thus be injured by inflation since they will bear the full burden of increases in cost and get no benefit of price increases for their products.

One potential advantage to wheat producers, however, would arise from a fall in the rate of exchange of the Canadian dollar. Inflation would raise Canadian prices, encourage imports and discourage exports, thus making Canadian dollars plentiful and cheaper relative to other currencies. A given wheat price would then mean a higher price in Canadian dollars unless measures were taken to prevent the decline in the exchange rate. As already noted however, the contrary is the situation today in Canada due to the heavy inflow of American capital.

Farm Prices and the General Price Level

The impact of inflation on the demand side of the agricultural industry is reflected in the change in the level of farm prices relative to the change in all prices. Historically, the index of farm prices has shown a persistent tendency to move in the same direction as to general wholesale price index (39 years out of the last 44). Farm prices, however, rose and fell to a greater degree than did all prices, tending to rise further during periods of rising prices and to fall further during periods of falling prices.

Prices of all Canadian farm products appear to have been in a relatively favorable position during periods of general price increases (Table III). This advantage has, however, been disappearing with each successive period of rising prices, until in the most recent period, from 1954 to 1958, the farm price index rose by less than half as much as the wholesale price index. The relative decline of farm prices in subsequent periods of recession has not been moderating in the same way.

Table III—Relative Movements of General Wholesale and Farm Product Price Indexes, Canada 1913-1958

Period	Change in Wholesale Price Index	Change in Farm Products Price Index	Ratio of Farm to Wholesale Price Change
	RISING PRICE PERIODS[A]		
1913–20	+119.8	+143.0	1.12
1922–25	+ 7.0	+ 19.8	2.82
1932–37	+ 20.8	+ 51.9	2.49
1939–51	+141.0	+176.0	1.25
1954–58	+ 10.8	+ 4.9	.45
	FALLING PRICE PERIODS[A]		
1920–22	− 76.4	−108.2	1.42
1925–32	− 46.9	− 79.5	1.70
1937–39	− 8.5	− 24.8	2.92
1951–54	− 21.2	− 55.0	2.60

SOURCE: Dominion Bureau of Statistics, "Prices and Price Indexes".

[A] Rising and falling periods are divided according to turning points in the General Wholesale Price Index.

Continuing relatively heavy declines in farm prices in periods of general price decline that have always followed inflation represent the most serious consequence of inflation for agriculture. Heavy fixed commitments, such as mortgage payments and increasingly heavy annual cash operating costs on the one hand and declining farm prices on the other, are the important elements of the cost-price squeeze.

Prices of some farm products have not always followed the average pattern during inflation. Wheat prices did follow the general pattern until 1946, when wheat prices were stabilized for several years, while wholesale prices continued to rise relatively sharply till 1951 and decline moderately till 1954. Since 1954, the general price level has risen, but wheat prices have been generally lower since 1953, contrary to the historical pattern.

The wheat producer would be placed in a particularly precarious position by further inflation because there is no prospect for an increase in wheat prices, while the current world surplus persists. Assuming that the Canadian Wheat Board continues to follow its present marketing policies further, inflation would not price Canadian wheat out of world markets, but it might well price many wheat producers into bankruptcy.

Wheat producers tend to lose heavily from any amount of inflation that is substantially greater than that occurring in the countries to which we sell. Wheat producer incomes, already under pressure from recent relative declines in wheat prices, would decline still further in purchasing power if wheat prices continue at present levels while other prices continue to rise.

Inflation and Redistribution of the National Income

Inflation is a completely arbitrary method of "taxation". It redistributes the national income indiscriminately and without regard to any acceptable criteria of equity or justice. The sectors of the economy hit hardest by inflation are those characterized by fixed incomes, or those unable to compensate for, or those unable to shift, the incidence of inflation.

Two major aspects of the redistribution of the national income must be considered:

(1) The redistribution of the national income among different sectors of the economy due to the processes of normal economic growth.

(2) The redistribution of the national income due to inflation.

Economic growth does not affect all industries or sectors of the national economy in a uniform way. In a normally developing economy, some industries expand while other industries decline. We do recognize that the agricultural industry will receive a declining proportion of the national income under conditions of normal economic growth in the Canadian economy.

On the basis of any crude criteria that can be used (Table IV), however, it seems that the agricultural industry is receiving less of the national income than can be justified on the basis of any of the acceptable measures of economic growth and efficiency of resource use. It would appear that inflation has caused the agricultural industry to receive less than a reasonable share of the national income.

Table IV—Percentage Distribution of National Income for Different Sectors of the Canadian Economy 1926 to 1958

Year	Wages, salaries and Supplementary Labour Income	Accrued Net Income of Farm Operators from Farm Production	Corporation Profits Before Taxes	Rent, Interest and Misc. Investment Income
1926	57.3	14.7	7.9	7.0
1927	57.5	13.8	8.4	7.2
1928	57.3	13.4	9.2	7.6
1929	62.5	8.3	8.4	7.8
1930	63.3	7.8	3.3	7.7
1931	71.2	2.8	.4	8.0
1932	74.8	3.9	3.7	8.5
1933	75.5	2.8	3.1	7.3
1934	69.7	6.0	6.9	7.2
1935	67.1	7.0	7.6	7.1
1936	66.6	5.9	9.3	7.2
1937	65.3	7.2	11.1	7.0
1938	62.9	8.8	8.4	6.5
1939	61.4	8.5	12.3	7.1
1940	58.5	9.5	13.2	6.9
1941	57.2	7.4	15.1	6.6
1942	52.9	11.5	14.0	6.6
1943	54.7	8.2	12.8	6.5
1944	52.1	11.4	11.3	6.1
1945	52.1	9.4	11.4	6.4
1946	57.4	11.1	13.3	6.1
1947	61.8	10.8	15.1	5.7
1948	61.7	11.5	14.3	5.4
1949	62.0	9.7	12.1	5.4
1950	60.8	9.3	15.0	6.3
1951	60.9	11.7	14.8	6.1
1952	60.1	10.5	12.7	6.3
1953	62.8	8.2	11.9	6.9
1954	65.4	5.3	10.3	7.9
1955	63.9	6.1	12.0	8.4
1956	63.8	6.4	12.2	8.5
1957	66.4	4.1	10.5	9.1
1958	65.6	4.9	9.6	9.6

In the foregoing paragraphs, we have indicated the important areas where inflation adversely affects agriculture. The extent of the "tax"—and we call it a tax without reservation, Mr. Chairman—imposed on agriculture by inflation has not been measured with any degree of refinement. Intelligent and effective policies to deal with the adverse effects of inflation on agriculture can only be formulated after an intensive study of this subject. It is essential for the welfare of agriculture that such research be carried forward with imagination and vigor.

RECOMMENDATIONS:

We respectfully offer the following for consideration.

1. In view of the apparent lack of ability of the public to follow and to comprehend the subject of inflation, we urge the Government to undertake an extensive program of public education with respect to inflation. There are many psychological factors which accelerate inflationary trends and we feel that the Government can go a long way in control of these trends through information and education.

2. We request that the Government, through strong persuasive action, or otherwise, do everything possible to prevent actions by labour and business that lead to undesirable price inflation. Legislation embodied in the Combines Investigation Act, and the administration of the said Act, should prevent any one industry from using the "administered price" to gain an unfair economic advantage in the economy; similarly, labor legislation should prevent any one segment of labour, by virtue of its entranched position, from gaining an undue economic advantage over other segments of the labor force in Canada.

3. It is essential that the Government, through the use of its different powers, provide the economic climate and take such direct action as may be necessary to encourage increased output in those industries that are strategic to the control of inflation.

4. It is imperative that funds be provided immediately, and on a continuing basis, to carry on independent and intensive research into the basic problems of inflation. The dynamics of our economy are continually producing new situations with inflationary tendencies. This causes our knowledge of the implications and consequences of inflation to be too incomplete to permit the rapid development of positive programs for its moderation or control. We are of the opinion that some actions, designed to curb inflation, have themselves been inflationary, or their adverse effect on some segments of the economy have been more detrimental than the overall good; all due to an inadequate knowledge of the subject.

5. The Government should examine very carefully all requests for further tariff increases, and especially in those industries where such increases will add to inflationary pressures. We believe that existing tariffs should be carefully studied with a view to the possibility of their removal acting as a brake on present inflationary trends.

6. We ask that the Government time more accurately its expenditures on public programs to fit in appropriately with prevailing economic conditions; but, and I emphasize this, we urge the Government to keep in mind inflationary factors when considering unemployment measures.

7. We suggest that the Government curtail its deficit spending as far as possible and adopt wise and courageous use of credit and of other monetary measures to control inflation.

8. There should be a transfer of taxes that have a mutilplier effect upon production and living costs, such as sales taxes and unemployment insurance, to tax fields that tend to curb rather than to accelerate inflation.

9. Finally, we urge that an immediate study be made to determine the extent of the net cost of inflation to agriculture, and that, based on this study, a program of compensatory measures be instituted. Canadian agriculture has had some small measure of relief through floor prices, etc., but this relief has not been related to the uncalculated tax on agriculture resulting from tariff protection and inflationary benefits to other more favoured segments of our economy. We suggest, once the net cost to agriculture has been properly estimated, that there are numerous compensatory payments that can be made and that are politically feasible, such as:

(i) Arbitrarily low interest rates for short and long term capital.
(ii) Relief of operating costs of farm marketing organizations, such as subsidized storage and interest costs, etc.
(iii) Further tariff and sales tax exemptions to agriculture.
(iv) Municipal grants in relief of farm realty taxes.

Failing the adequacy of such indirect payments, we urge such measures of deficiency payments as may be necessary to remove any remaining net tax (inflation cost) on agriculture.

The CHAIRMAN: Mr. Parker, I want to thank you very much for the very excellent brief that you have presented to us, and I am sure that it will be of great help when we are taking this whole question into consideration.

If the honourable members of the committee wish to ask any questions, I am sure that Mr. Parker will be glad to answer them.

Senator SMITH (*Queens-Shelburne*): Mr. Chairman, I would like to ask with regard to the statement in the brief that some of the curbs that have been placed on inflation have themselves been inflationary. What specific curbs do you refer to, Mr. Parker?

Mr. PARKER: I think, sir, it is very questionable if increased interest rates will tend to curb inflation. Increased costs brought about by that are passed on to the consumer. Another one is income tax on businesses and corporations; that is not necessarily a tax that bears on them because in most instances it is passed on as cost to the consumer; any unemployment insurance that a company has to pay of course is added to the payroll and becomes an operating cost, and that enters into the cost of the finished article; sales tax in itself is in the main, if not wholly, passed on to the ultimate consumer. Our complaint is that agriculture cannot pass anything on because we are stuck, we are not in as strong a bargaining situation as the other groups. That is my opinion.

Senator SMITH (*Queens-Shelburne*): What has been the effect of the Agricultural Price Stabilization Act on the farm population? Has that made the farmer's position a little better?

Mr. PARKER: Yes, it makes it a little better than it was. I may say that these things must be handled with a great deal of finesse and statesmanship. Otherwise, there may be repercussions. Agriculture feels that we need a price support policy. Now, that has always been debatable, but agriculture in Canada cannot compete today in the world market without some kind of subsidy because agriculture is pretty highly subsidized in nearly all countries.

Senator BURCHILL: Mr. Parker, several of the briefs that have been submitted to us have stated that the parties are against inflation, creeping inflation, galloping inflation, or inflation of any kind.

Mr. PARKER: We are all against it.

Senator BURCHILL: And they said we should set our face against inflation of all kinds. We were told that we could have prosperity, industrial growth, and full employment without any inflation. That has been the gist of many briefs. Do you subscribe on that theory?

Mr. PARKER: No. We do say in our brief that some measure of inflation may be desirable or inevitable at times. It is a question of the degree, the amount and the rate. If we can keep our economy balanced, inflation is not going to hurt us at home, but we must not inflate our costs to where we cannot export competitively. That is the other side.

I can't answer the question any better than that. I think it is not possible to do away with inflation entirely. We have had it with us ever since the industrial revolution, haven't we?

Senator LEONARD: No.

Mr. PARKER: Then I stand correct.

The CHAIRMAN: May I thank you again, Mr. Parker, for your fine presentation. The committee will resume at 2.15 to consider the one remaining submission to be heard today.

—At 1 p.m. the committee adjourned to resume at 2.15 p.m.

Upon resuming at 2.15 p.m.

The CHAIRMAN: Honourable senators, I am happy to see that we have a quorum this afternoon, and I want to thank you for returning here. Our witness this afternoon is Mr. A. P. Gleave, Chairman of the Interprovincial Farm Union Council, and with him is Mr. J. Patteson, Director of Public Relations. We have only a short time, and I will call at once on Mr. Gleave to present his brief.

Mr. A. P. Gleave, Chairman, Interprovincial Farm Union Council: Mr. Chairman and honourable senators, we represent the direct membership of the farm organizations—

Senator HAIG: In what part of the country?

Mr. GLEAVE: We represent the provincial unions of Ontario, Manitoba, Alberta, Saskatchewan and British Columbia, which are all associated with the Interprovincial Farm Union Council.

The economic squeeze of Canada's farmers, who have to sell their own products at deflated prices, is aggravated by inflated costs of the goods and services they have to buy. We submit that no one is hurt as much by inflation as the farmer. This squeeze is one of the main causes of the continuing migration from the farm to the city.

According to the latest census figures, Canada's farm population has shrunk from 2,911,996 in 1951 to 2,746,755 in 1956, a drop of 165,241. In the same period the number of farms fell from 623,091 to 575,015. The difference of 48,076 represents roughly the total number of farms of a whole province such as Manitoba.

We have repeatedly expressed our concern about this trend. In our annual submission to the federal government on February 16, 1959, we said:

> The elimination of individual farmer-owners is bound to have far-reaching effects on the social and political institutions of our country. Nations draw their strength from their rural people. Depopulation of the rural areas weakens the moral fibre and the virility of the nation. Political power follows economic power. The destruction of private ownership, with its widely diffused control of the economy, is a threat to democracy as we understand it.

We stated in the brief that the men and women we represent believe that their future should not be decided solely on the grounds of economic expediency, but that social factors have to be taken into consideration. We, therefore, asked the question:

> Whether federal agricultural policies to be enacted will aim at the preservation of widely distributed private ownership of productive assets, enabling men to maintain themselves and their families on their farms, or whether the federal government intends to let those economic forces have free play, that encourage the trend to anonymous, corporate ownership with all its inherent dangers.

To what extent farmers are affected by the inflated prices of goods they have to buy, can best be seen if we look at farm machinery prices in terms of purchasing power of farm products such as wheat, for example.

> (a) In 1946, the average price received by a Saskatchewan farmer for a bushel of wheat was $1.62. In the same year, a 12-foot, self-propelled combine (Massey-Harris) f.o.b. Regina, cost $3,214. In 1957-58, the average farm price of wheat had declined to $1.29 per bushel, but the price of a 12-foot, self-propelled combine (#90) f.o.b. Regina had risen to $7,215. While in 1946 it took only 1,983 bushels of wheat to buy a combine, in 1958 the farmer had to sell 5,593 bushels in order

to pay for the combine. At an average of 16 bushels per acre, the crop of 124 acres was enough in 1946 to pay for the combine, but in 1958 it needed the crop of 350 acres. In 1946, farmers had open delivery quotas, but in the crop year 1957-58 the quota averaged 6.8 bushels per acre. This means that in 1958 the farmer had to deliver the quota of 822 acres to pay for the combine. Taking into the calculation fallow land, it follows that today it needs a full year's grain income from more than 2½ sections of land to pay for the combine. This probably is the best proof that the cause of the need to increase landholdings to so-called "economic units" lies not with the farmer, but with the inflated prices he has to pay for manufactured goods.

(b) A Massey-Harris 3-4 plow tractor f.o.b. Regina in 1946 cost the equivalent of 1,138 bushels of wheat, while a similar tractor in 1958 cost the equivalent of 2,756 bushels for the cheaper gas model and 3,300 bushels for the diesel model.

(c) A one-way disk (8½ ft.) in 1946 cost the equivalent of 262 bushels of wheat, but a nine-foot disk harrow of the same make cost 745 bushels in 1958.

Similar increases have occurred in services such as freight rates. Shipping costs for a self-propelled combine have increased from $107 in 1946 to $334 in 1958.

Causes of Inflation

At this time we do not propose to consider all the causes and ramifications of post-war inflation in Canada such as the removal of price controls following World War II; the pent-up consumer demand following the war for consumer durable goods; the Korean War and its aftermath; the huge defense and military expenditures by the government.

Instead, we would like to address ourselves to the more permanent institutional factors which in the post-war period have given rise to what might be called "creeping inflation", which is not merely an example of too much money chasing too few goods.

The farmer's position: (1) The Canadian farmer has rendered yeoman service to the Canadian consumer in keeping prices to the consumer down. If food prices had followed the general trend in consumer prices, the resultant inflation would have been far more serious than it is today. As a matter of fact, food prices are a deflationary factor.

(2) The farmer is under a permanent handicap as far as the terms of trade with the rest of Canadian society is concerned. We tend to talk glibly about the competitive forces in our society and how demand and supply determine price. In actual fact, it is the institutional forces in our society which have taken over in determining price structures. Labour unions establish the price of labor; tariffs, quotas, dumping duties, price fixing and price leadership by corporations and international cartels establish the price of internationally traded commodities. The farmer, unlike his counterparts in most other industries, is not in a position to increase his prices to the consumer to compensate him for rising costs of production which are the result of inflationary trends. We cannot increase the price of our wheat and grains in export markets and will be fortunate if these do not continue to decline. Thus even "creeping inflation", over a period of time, has serious repercussions on the financial stability of farming operations.

(3) The farmer has to compete with well entrenched financial corporations for scarce credit resources owing to "tight money" policies implemented in an attempt to keep inflation in hand. Corporations have the benefit of limited liability. They have access to relatively large quantities of capital

through being able to float bonds and debentures, or raising money through equity capital. The individual farmer does not have these advantages. At a time when money is needed desperately to finance farm operations in this modern technological age, there is evidence that farmers have been living on their depreciation allowances since 1954. In Saskatchewan, for example, farm implement sales in recent years do not even match depreciation allowances allowed on farm capital invested in farm machinery.

(4) The present high interest rates being charged for capital goods are leading to the creation of a large amount of debt and heavy overhead charges, which will ultimately be reflected in higher prices for consumer goods. Thus, rising costs of farm equipment and materials and general living costs is a reasonable prediction for the future. The situation appears to be getting worse instead of better.

(5) Recent recession saw overproduction in oil, farm implements, automobiles, etc. But the prices of these products did not fall to any appreciable extent. Quantity or output was restricted but prices to the consumer were retained. Thus the farm sector of the economy does not stand to gain, pricewise, even when there is relative overproduction in farm equipment and materials.

Industrial Wages: Although there is much talk abroad about the "wage-price spiral" and wages outpacing productivity, thus causing inflation, no convincing proof to this effect has yet been adduced. Further study of the wage-price relationship should be made.

On the other hand, the increase in labor income in the last decade and a half was of importance to the Canadian farmer because it made possible expansion of domestic demand for certain food products. This became increasingly important as Canadian farmers lost their post-war markets for farm products with the exception of wheat and—intermittently—livestook. We are aware that we stand to benefit if the consumer is in a financial position to buy a maximum of food products.

Returns to Capital Investment in Industry: We want to draw your attention to one factor which has been given scant consideration in determining the causes of inflation, but deserves to be investigated—the returns to capital investment in industry.

The Gordon Commission on Canada's Economic Prospects has arrived at a rough estimate of the aggregate or total industrial fixed capital stock in Canada. The figures are very revealing:

> (1) In terms of constant 1949 dollars, the gross industrial fixed capital stock rose from an estimated $25.3 billion in 1946 to approximately $38.0 billion in 1955. (Source: *Output Labor and Capital in the Canadian Economy,* by Wm. C. Hood and Anthony Scott, p. 451).
>
> (a) The National Accounts show that total "investment income" in Canada in 1946 (which includes corporation profits, rent, interest and miscellaneous investment income excluding interest and dividends paid to, or received by non-residents) amounted to $2,092 million in 1946 or a rate of return on gross fixed assets valued at 1949 prices of about 8.27 per cent. Investment income in 1955 rose to $4,560 million on a gross fixed capital stock of about $38.0 billion or 12.0 per cent.
>
> (b) The Gordon Commission, however, also estimates Canada's total gross fixed capital stock in terms of its original cost. On this basis, the total fixed capital industrial investment in Canada was estimated by the Gordon Commission at $14.6 billion in 1946 and $35.4 billion in 1955. The rate of return on capital investment on this basis would be 14.3 per cent in 1946 and 12.9 per cent in 1955.

(c) The above examples are on a gross basis since they do not make allowance for "capital consumption" including depreciation, obsolescence, etc. The Gordon Commission estimates are that net industrial capital stock in Canada in 1946 in terms of 1949 dollars amounted to $12.0 billion which increased to $23.0 billion in 1955. On this basis, investment income shows a return on net fixed capital of 16.9 per cent in 1946 and 19.8 per cent in 1955.

(d) Finally, in terms of original cost, total net industrial capital in 1946 amounted to $8.2 billion and this increased to $24.2 billion in 1955. On this basis the investment income amounted to 25.5 per cent in 1946 and 18.9 per cent in 1955.

The following observations are also relevant:

(1) A good deal of new capital investment is normally financed from depreciation allowances and retained profits. The former is a cost of operations and is deducted before the calculation of the profit.

(2) Where bonds and debentures are used to raise money, the annual principal and interest charges are normally deducted from revenues prior to the computation of profits.

(3) Where equity financing is used, i.e., share capital, there has been an appreciable enhancement of assets through capital gains, stock splitting, etc., in addition to dividends.

(4) The net new additions to industrial capital stock during the post-war period, while appreciable, are not nearly as large as would be indicated by the new capital investment data, because of the "destruction" of existing capital through obsolescence and depreciation.

(5) It is a rather futile exercise in logic to attempt to qualify the productivity of labor because it is the result of the new technology. Certainly machines by themselves are not productive and the increase in productivity of labor is certainly a combination of both increased labor and capital efficiency. But it is the rate of return on net total capital invested which is the significant factor as far as profits are concerned, and here the returns (excluding capital gains) are appreciable. Small wonder that investments in Canadian industry have provided a hedge against inflation.

Canadian farmers, who rarely can count on any return to their capital investment, look with envy at these percentage figures and wonder whether they are not unduly and undeservedly high.

It seems to be quite generally accepted that one of the most important factors contributing to inflation probably was the tremendous post-war capital expansion program which was largely financed from corporation profits.

From 1947 to 1956, private capital investment in Canada averaged nearly 19 percent of the Gross National Product compared with only 10.4 percent during the period of 1930 to 1939. This great rate of post-war capital expansion was chiefly responsible for the post-war inflation which was the price Canadians had to pay for large economic expansion in a limited period of time. There had to be a time lag between the time the capital investment was being made on a new plant and equipment, and the time these new plants were producing consumer goods. In the interval much more income was being generated and circulated and was "chasing too few goods."

To the extent that such expansion is financed directly by a share of the consumer's dollar, it does "an injustice to the consumer whose price is unduly increased" as we have pointed out in our submission of February 16 to the federal government. We also said that injustice is done to the public at large which is prevented from investing its savings in a way that will permit it to participate in the continuously increasing wealth of the nation. "The practice

prevents wider distribution of ownership and favors its concentration." We suggested that "were corporations compelled to distribute all net earnings to their shareholders and raise expansion capital from outside sources, prices to the consumer could be lowered."

Another effect of concentration of ownership and control of the instruments of production and distribution in particular sectors of the economy is the elimination of competition, thus giving rise to opportunities for "administering" prices.

Administered Prices: The report of the United States Senate Subcommittee on Antitrust and Monopoly on administered prices in the automobile industry indicates a "significant drift away from price competition". It shows that the industry follows the lead of the largest company in price setting, and refers to the steel industry where the same practice appears to prevail. The absence of price competition is beclouded by what the report calls "price complexity and price deception".

The report states that "in the automobile industry price is arrived at by General Motors" and goes on to explain the methods by which prices are set. This chapter makes wondrous reading indeed. In it, the Antitrust and Monopoly subcommittee quotes the American Institute of Management and what it has to say about General Motors' operating profit (net sales less cost of sales, selling and administrative expenses and depreciation):

> The astonishing fact emerges—that, from 1949 through 1955, the average rate of operating profit in proportion to total assets employed, including debt, has exceeded 40 percent per annum. The operating profit on net stock and surplus, defined to include minority interest and special reserves, has exceeded 55 percent per annum in the average of these years. It has averaged 140 percent of the average net plant account in these same years! This is optimum utilization of capital and equipment in the fullest sense of the phrase.

The Senate subcommittee then says: "The institute pointed out that at the 1955 rate of profit, General Motors' net earnings (after interest and income taxes) were sufficient to recoup the company's entire net plant investment in two years. This was not simply the result of an exceptionally high rate of activity in 1955: 'It is, in fact, a continuing characteristic of the enterprise, being equalled or bettered in 12 of the preceding 20 years.' With respect to General Motors' performance over the years, the American Institute of Management could only marvel that 'the rate of return is phenomenal.' "

The subcommittee goes on to report that "the attitude of General Motors' management toward the profitability of its operations—characterized by the American Institute of Management as 'fabulous'—is one of quiet satisfaction in a job well done."

Canadian farmers can appreciate that manufacturers are quietly satisfied with such "fabulous" results. However, they are disquited by the effects they have on their own situation now and in the future.

Costs of Instalment Buying: The Dominion Bureau of Statistics looks only at cash prices, and this in itself can be very misleading. A good deal of consumer spending today is done on the time payment plan. Many dealers of consumer durables make as much profit on "time sales" as they do on the merchandize itself. Instalment purchasing carries interest rates as high as 18-20 percent. Thus the end price to the consumer is considerably higher than would be suggested by taking only the cash price.

According to the report of the Subcommittee on Antitrust and Monopoly, finance charges in the automobile industry run as high as 9 percent add-on for 36 months which is equivalent to approximately 16.2 percent compound

interest. "The finance companies have not called their charges interest," the report says. "In fact, they have insisted that their charges are not interest. The distinction appears to be primarily aimed at avoiding the usury laws. If the extra charge to the buyer who cannot pay cash is called a 'time price differential', or a 'finance charge', it is, therefore, not legally 'interest', and thus is exempt from the application of statutes which prohibit excessive interest. This is the apparent rationale for the careful nomenclature."

Conclusion: We strongly urge a careful study of the interrelationship of wages, profits and prices, having particular regard to returns to invested capital, undistributed earnings, administered prices, and finance charges on instalment buying, and their effects on the agricultural economy.

The CHAIRMAN: Mr. Gleave, you have presented a very fine brief. We appreciate you coming here. I will now throw the meeting open for questions that honourable senators would care to ask.

Senator HORNER: Referring to the first page of your brief, I doubt very much if the farmer would suffer more from deflation than he does from inflation. You mentioned the subject of abandoned farms. Let me give a few illustrations in respect to that. Right near Ottawa the Hinton Mine has opened up and employed 400 men, many of them farmers who have abandoned their farms. They have done so because of the high wages they receive working in the mine. Go further west to Saskatchewan. The farmers there were getting along quite well but immediately they started the construction of the Saskatchewan River Dam, which is supposed to give employment to those who need employment, you find dozens of farmers abandoning their farms to work on the project. My contention is that a number of the farms have not been abandoned so much because of adversity in general farming conditions but because of the attractiveness of certain non-farming operations in the community. Whether it is a case of working on drilling rigs or some other form of construction work, high wages have drawn farmers away from their farms. It is a case of prosperity rather than adversity.

Mr. GLEAVE: In answer to your first comment I would say that deflation would be much more severe on us than the present inflation. In other words, if we must make a choice between the two evils I would say that deflation is worse. The farming community prospers more under a stable economy, in other words when the economy is relatively well balanced, and when no particular group is in a position of advantage. That is when the farmers do best. Certainly I would agree that there are some farmers who move to industrial employment and they do have an advantage. What concerns us is that this particular situation is affecting farmers whom we ordinarily expect to be in a pretty solid position. I refer to efficient farmers with a reasonably good acreage. It is moving in on many of our better operators, and that is what concerns us.

Senator HORNER: My own impression is that in Saskatchewan mortgages and titles are being secured and held by farmers to a greater extent than ever before. In other words, for a new province the debt on Saskatchewan farms is relatively small. I have no statistics on this and I have been unable to get any from various witnesses who have appeared before the Senate's Special Committee on Land Use. Even the Minister of Agriculture for Saskatchewan could not give me the information, but he did not deny my statement that they were being paid off and that clear titles were being secured and held by the farmers.

Mr. GLEAVE: As a matter of fact, loans from the Canadian Farm Loan Board in Saskatchewan are on the increase. I am sorry that I cannot give

you any figures but I can get them and submit them to your committee if you wish. I would add, though, that lending institutions like insurance companies have largely moved out of the lending field in Saskatchewan.

Senator HAIG: Why?

Mr. GLEAVE: The depression put a squeeze on them and they took a loss and they left.

Senator HAIG: The Legislature changed the laws and that is why the lending institutions left. You have a law in Saskatchewan that we do not have in Manitoba. A man lends money on a mortgage and the borrower has a reasonable time to pay if off and if it is not paid the mortgagor can take proceedings of foreclosure; but you cannot do that in Saskatchewan unless you have an order from a judge, and that is hard to get. Am I right in my statement?

Mr. GLEAVE: I would say you are right to a degree. We found in depression that we had to take drastic steps to protect our people on the land, but I would point out that loans from the Canadian Farm Loan Board, which is now the only practical source for getting loans, is on the rise. This year both Manitoba and Saskatchewan introduced a system of credit under which loans could be made to farmers.

Senator REID: You say in your brief that this squeeze is one of the main causes of the continued migration from the province of Saskatchewan. But is it not due to the fact that the loss of population in Saskatchewan is due to mechanization of the farm, because the farmer found out that if he had to buy machinery to operate a 160-acre farm it would not pay him. For instance, the number of members from Saskatchewan some years ago was 21 and now their representation is 16, and I would venture to say that it was not the squeeze that put them out. The man who stayed there is the man who now owns, 1,000 acres instead of the 160 that he owned before. Is that not a fact?

Mr. GLEAVE: Mr. Chairman, mechanization is a factor but it is not the sole factor. You have to have larger machines which will till a larger number of acres and you have to have a larger capital investment which requires, shall we say, a larger operation to carry. But it would be a mistake to assume that it was the sole factor.

Senator REID: But it is quite a factor. You say in your brief, "The main cause of this squeeze on migration." It was not the squeeze that caused the great migration in Saskatchewan.

Mr. GLEAVE: I recall a university economist saying to me very many years ago and I remember what he said because I am a farmer. He said there are a number of ways to cut costs, but one of the most efficient ways is to increase unit production, and farmers are simply taking this course, increasing unit production as far as they can to cut down the unit costs. As your return per unit cost of production narrows, you have to produce more products in order to make a living.

Senator CRERAR: Mr. Chairman, I have observed this in Manitoba, that a great many young people and some older people see the high wages paid in jobs available in the city. Take for instance the driving of oil trucks and that sort of thing. These fellows who do that, I am told, get as high as $350 a month in wages, which is over $4,000 a year, and the young boy on the farm takes a look at that and says, "On the farm I have to work 12 to 14 hours a day so I will go and take this job where I have perhaps to work only 40 or 44 hours a week", and I do not know how you can blame him. I think that attraction is responsible, I suspect, in cases where a number of farms have become vacant. It is the natural course of this other pattern where farms are consolidated

into larger farms because the larger farm can undoubtedly operate more efficiently than can the smaller unit. I may be wrong but I think that is a factor.

Mr. GLEAVE: Certainly, Mr. Chairman, the better wage returns and the better financial returns will attract labour to the city.

Senator HORNER: And the five-day week also has its attractions.

Mr. GLEAVE: Yes, and the better living conditions, the better housing conditions, all are drawing people from farming. But to come back to this question of unit production, I would refer you to the figures in the brief showing the cost of a combine and the cost of a tractor. Obviously a farmer is not going to spend this money to buy a machine to farm the smaller farm.

Senator TAYLOR (*Norfolk*): Mr. Chairman, I would like to draw the attention of our witness, Mr. Gleave, to a remark which is on page 10 of the brief where he speaks about distributing the net earnings of companies. The brief reads: "The practice prevents wider distribution of ownership and favours its concentration. We suggested that were corporations compelled to distribute all net earnings to their shareholders and raise expansion capital from outside sources, prices to the consumer could be lowered."

Would you want a company to distribute all of its earnings to its shareholders?

Mr. GLEAVE: The major portion of them.

Senator TAYLOR (*Norfolk*): But you say in your brief, "all net earnings". Do you operate any sort of company?

Mr. GLEAVE: No, I have operated a farm.

Senator TAYLOR (*Norfolk*): You have? I have farmed for 49 years. But what I want to do is to point out to you that that suggestion is fallacy. If that were to be done the companies would have no protection against adversity, depression or anything else.

Senator CROLL: Would not the words, "nearly all" be better?

Senator TAYLOR (*Norfolk*): Will you tell me this: where would that improve the farmer's position?

Senator CROLL: Senator Taylor, you have a real point there if he leaves the words at, "all net earnings", but you do not have a point if he was to change the words to read "nearly all net earnings".

Senator TAYLOR (*Norfolk*): The farmer just simply cannot compete with organized labour. I was in a hayfield the other day where we had a $22,000 piece of machinery taking that hay crop off. That is efficiency. But it must be remembered that you cannot put in a crop of hay and sell it at $15 a ton and do that with labour at $1.25 an hour, the price you have to pay to compete with industry for labour.

Mr. GLEAVE: Mr. Chairman, when I go to my farm and start taking off the crop I have a similar investment. However, I may accept the correction that the words that Senator Taylor referred to, "all net earnings" be changed to read, "nearly all net earnings". But my suggestion here is that it would be an advantage if a great deal more of these net earnings were distributed to the shareholders because by doing that you would be distributing this purchasing power, and the purchasing power goes back to the people. If too much purchasing power is held in the corporation then the consumer has to go to a finance company to get the money to buy the goods because there is so much less money in circulation.

Senator TAYLOR (*Norfolk*): Let us get the answer to my question. If the company uses that money for capital expansion it goes into the hands of the

public and the purchasing power is there, is it not? No company is going to let a lot of money lie idle in its treasury. No company could afford to pay out all its net earnings; it would cause disaster, in the long run.

My contention is farming is a way of life where a man has his own business and his home combined and if he is not satisfied with the independence that he has and is not willing to work longer hours for less and less, what you say here is going to happen and there is no way of preventing it.

Mr. GLEAVE: Mr. Chairman, I agree that farming is a way of life but it is also a business. My farm must operate in the black or I am out of business. The time when you could take it out of your own hide is gone, except for those on the fringe. Except for those who are on the fringe of farming, that time is past.

Senator FRASER: I agree with that. I have $75,000-worth of equipment on my farm. What is the nature of your farming?

Mr. GLEAVE: Primarily grain farming, with some livestock.

Senator FRASER: It is a one-crop farm?

Mr. GLEAVE: No, it is not a one-crop farm.

Senator FRASER: Where is your farm?

Mr. GLEAVE: In west central Saskatchewan.

Senator FRASER: We in Ontario are in a diversified farming country; we grow beef cattle, wheat, apples and everything. We have a keen appreciation of the need for machinery. Let me tell you, we cannot have a successful diversified farming operation in competition with organized labour.

Senator MCLEAN: If the corporations you are talking about—and there are many or them—paid out everything in dividends, the purchasing power would go to the United States. We are in difficulty now with dividend payments, because we are not exporting enough to cover those dividends; we are not exporting enough to cover our interest bill. If that system were carried out, we would simply be borrowing money to pay the balance, and the dollar would go up to $1.10. How would that affect the other markets?

Mr. GLEAVE: It would make them worse than they are now.

Senator MCLEAN: Sure it would.

The CHAIRMAN: Gentlemen, the time has come when we must adjourn. May I quickly thank Mr. Gleave and his associates for their fine presentation here this afternoon.

—Whereupon the committee adjourned.

Second Session—Twenty-fourth Parliament

1959

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE

on the Threat of Inflation in Canada

No. 9

TUESDAY, JUNE 30, 1959
WEDNESDAY, JULY 1, 1959

THE HONOURABLE CLARENCE V. EMERSON,
Chairman

WITNESSES

Mr. L. D. Byrne, Edmonton, Alta.

Mr. Paul Emile Charron, Assistant Secretary, Federation des Caisses Populaires Desjardins, Levis, P.Q.

Mr. G. L. Harrold, President, Alberta Wheat Pool.

Mr. C. W. Gibbings, Second Vice President, Saskatchewan Wheat Pool.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

21541-8—1

THE STANDING COMMITTEE ON FINANCE

Chairman: The Honourable Clarence V. Emerson.

The Honourable Senators:

*Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Buchanan
Burchill
Campbell
Choquette
Connolly
(*Halifax North*)
Connolly
(*Ottawa West*)
Crerar
Croll
Dupuis
Emerson
Euler
Farris
Gershaw
Golding
Haig
Hayden
Higgins
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Power
Pratt
Quinn
Reid
Robertson
Roebuck
Savoie
Smith
(*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
Wall
White
Woodrow—50.

**Ex officio* member.

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, TUESDAY, April 28, 1959.

"Pursuant to the Order of the Day, the Senate resumed the postponed debate on the motion of the Honourable Senator Wall, seconded by the Honourable Senator Leonard:

That the Standing Committee on Finance be instructed to study the threat of inflation in Canada;

That the Committee have the authority to send for persons, papers and records, and to report from time to time.

After debate, and—

The question being put on the motion—

The Senate divided and the names being called they were taken down as follows:—

CONTENTS

The Honourable Senators

Baird
Basha
Beaubien
Bois
Boucher
Bradette
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Croll
Dupuis
Euler
Farquhar
Gershaw
Golding
Grant
Hodges
Hugessen
Isnor
Jodoin
Lambert
Lefrançois
Leonard
Macdonald
McGrand
Petten
Pouliot
Pratt
Reid
Robertson
Roebuck
Savoie
Smith (*Kamloops*)
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Westmorland*)
Vaillancourt
Veniot
Wall
Woodrow—40.

NON-CONTENTS

The Honourable Senators

Aseltine
Brunt
Buchanan
Emerson
Gladstone
Haig
Higgins
Horner
MacDonald
Methot
Pearson
Quinn
Sullivan
White—14.

So it was resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, June 30, 1959.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.15 a.m.

Present: The Honourable Senators: Emerson, *Chairman;* Bouffard, Buchanan, Burchill, Connolly (*Ottawa West*), Crerar, Croll, Euler, Gershaw, Golding, Haig, Higgins, Horner, Lambert, Macdonald, Pearson, Smith (*Queens-Shelburne*), Stambaugh, Taylor (*Norfolk*), Turgeon and Vaillancourt—(21).

In attendance: The official Reporters of the Senate.

Consideration of the order of reference of April 28, 1959, was resumed.

The following were heard:—

Mr. L. D. Byrne, Edmonton, Alberta.

Mr. Paul Emile Charron, Assistant Secretary, Federation des Caisses Populaires Desjardins, Levis, P.Q.

At 12.30 p.m. the Committee adjourned.

At 2.00 p.m. the Committee resumed.

Present: The Honourable Senators: Emerson, *Chairman;* Bouffard, Buchanan, Burchill. Crerar, Croll, Gershaw, Golding, Haig, Higgins, Horner, Lambert, Stambaugh, Taylor (*Norfolk*) and Vaillancourt—(15).

The following were heard:—

Mr. G. L. Harrold, President, Alberta Wheat Pool.

Further consideration of the order of reference was postponed.

At 3.00 p.m. the Committee adjourned until tomorrow, Wednesday, July 1st, at 10.00 a.m.

ATTEST.

John A. Hinds,
Assistant Chief Clerk of Committees.

WEDNESDAY, July 1, 1959.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.00 a.m.

Present: The Honourable Senators: Emerson, *Chairman;* Aseltine, Bouffard, Brunt, Burchill, Croll, Dupuis, Euler, Gershaw, Haig, Hayden, Higgins, Horner, Smith (*Queens-Shelburne*), Stambaugh, Taylor (*Norfolk*), and Turgeon—(17).

In attendance: The official Reporters of the Senate.

Consideration of the order of reference of April 28th, 1959, was resumed.

Mr. C. W. Gibbings, Second Vice President, Saskatchewan Wheat Pool, was heard.

The further consideration of the order of reference was postponed.

At 11.00 a.m. the Committee adjourned to the call of the Chairman.

ATTEST.

John A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, Tuesday, June 30, 1959.

EVIDENCE

The Standing Committee on Finance, which was instructed to study the threat of inflation in Canada, met this day at 10.15.

Senator Clarence V. Emerson in the Chair.

The CHAIRMAN: Honourable senators, from looking at the agenda before us this morning I judge that our sitting will perhaps extend into the afternoon for an hour or so. However, this will be the last meeting of the committee except for the hearing of one witness, for which we have not yet arranged a time.

I shall call first on Mr. L. D. Byrne from Edmonton, Alberta, who is requested to present a brief to the committee by Senator Buchanan.

Mr. L. DENIS BYRNE: Honourable chairman and honourable senators,—at the outset I wish to convey to you my warm thanks for the opportunity of appearing here today. I must make it plain beyond any possibility of misunderstanding that I have come here entirely in a personal capacity, as a Canadian who sincerely believes he has something to contribute to the study of this vitally important problem of inflation.

The views I express are entirely my own views, for which I and I alone accept full responsibility. I want to make it plain that not even by implication should anything I have to say be construed as involving even in the smallest measure my employers—whom, as you know, are a Government agency—or any organization with which I may be associated.

I also wish to make it clear that I do not pose as an expert or an authority. I have been no more than a student of economic, constitutional and related questions for the past 30 years, and I have found the more I have gained in knowledge the humbler I have become in realizing what I do not know.

In the brief which I am about to present to you I have tried to put forward a carefully argued and logical case. In my desire to do so, you may find repeatedly that I have stated the obvious, perhaps to the point of being a little irritating. I trust, honourable senators, you will bear with me, and withhold your judgment until I have finished.

The brief before us is divided into three parts. The first has for its purpose an assessment of the world situation, against which, with deference, I submit the problem of inflation should be considered.

The next part deals with the all too familiar price-wage squeeze, which is disrupting the economy with labour-management disputes, strikes and recurring threats of strikes.

The final part is more technical and deals with the monetary questions and directs attention to what I am convinced is the basic problem which you are investigating. I now turn to the text of my submission which is in your hands.

SUBMISSION ON "POST-WAR INFLATION OF PRICES IN CANADA"

By L. DENIS BYRNE

A—INTRODUCTORY

1. The post-war inflation of prices within the Canadian economy has reflected a condition which has been common, in a greater or lesser degree, to all Western nations. In the main the rising price levels in the principal trading countries remained in relative balance to an extent that made it possible to avoid any grave dislocation of international trade. Possibly it is this factor in the international situation which has detracted from a proper recognition by governments of the destructive and menacing nature of price inflation to the non-Communist Western nations.

2. The central fact of our contemporary world—a fact which should be kept relentlessly to the fore by every government on this side of the Iron Curtain—is that we live in a rapidly disintegrating civilization. Within the space of forty-five years the foundations of Western society have been shattered by two world wars, a series of major revolutions, a devastating economic crisis and over a decade of international tension on an unprecedented scale.

3. The outcome of the First World War was the emergence of a new form of society and a new concept of nationhood under dictatorships maintained by stark force, marked by brutality and in every respect the antithesis of the traditional Christian social ideal. Although differing in name the dictatorships of Communist Russia, Nazi Germany and Fascist Italy conformed to a similar pattern. And while, during the critical years of the 'thirties', these predatory dictatorships were consolidating their positions and building vast war machines, the Western democracies, to whom they constituted a growing threat, were plunged in an economic depression which sapped the morale of their peoples through economic stagnation, widespread destitution and mass unemployment, while governments seemed impotent to deal with the situation.

4. The plight of the democratic nations was indeed perilous. Faced with the growing might and the aggressive intentions of the dictatorships, they were threatened by economic dislocation and social unrest from within. By 1937 it was evident that war was inevitable, and when this burst upon the world in 1939 the initial advantage was with the dictatorships.

5. In the subsequent six years of conflict, much of Europe was devastated, millions of lives were obliterated and many millions more were rendered homeless or were the victims of mass deportations. In the carnage and destruction of war the two dictatorships of Nazism and Fascism were destroyed, but that of Communism, thanks to the Western democracies, emerged as the chief beneficiary of the conflict.

6. Today the Communist Empire extends from Berlin to the Bering Strait, from the Kara Sea to the China Sea. It has swallowed up half of Germany, all Poland, Czecho-Slovakia, Hungary, the Balkan States, the Baltic States and includes all Russia in Europe, all Russia in Asia, all the mainland of China, half of Indo-China, half of Korea and all Tibet. With more than one-third of the world's population and with vast natural resources, the Communist group, under the leadership of the Soviet Union, have created a war machine which, in terms of man power and striking force, if not superior to the rest of the world, is at least sufficiently powerful to ensure that in any armed conflict the resulting devastation might well destroy the remnants of what civilization has so far survived the successive upheavals of the past half century. Moreover, this formidable grouping of military might, predatory and aggressive, is controlled by a handful of men openly hostile to every democratic ideal. With

tentacles reaching into every non-Communist country, stirring up unrest, creating discord, attacking the established institutions of democracy and propagating communist philosophy, they constitute a peril such as the Western nations have never faced.

7. The purpose of the foregoing cursory review of the events which have led up to the present world situation is to emphasize its gravity—that, in fact, we are living in a disintegrating civilization, and today face what may rapidly develop into *the* crisis of human history.

8. It is against this background that the whole question of the disruption to the economy caused by the persisting post-war price inflation should be considered. The nations of the world are divided into two fundamentally hostile armed camps—fundamentally hostile because the objectives, the broad social policy and the philosophical basis of that policy to which the Soviet Union and its communist allies are committed are in direct conflict with and diametrically opposed to those of the democratic nations. The continued aggressive pressure of the Soviet bloc on the West—so expressively termed the "cold war"—is just as objectively directed to the Communist bid for world domination, as would be open warfare.

9. In the present international situation it is unlikely the Soviet Union will resort to armed conflict, except as a last resort. The deterrents are too great, the gamble too uncertain. They are more likely to concentrate their onslaught against the Western powers in the economic sphere—a fact which is already apparent today.

10. It will be evident that, important as it has been for the Western nations to build up their armed forces to match the threat of growing Soviet military might, it is even more important for them to mend their economic fences, and to meet the Communist challenge on that front by an invincible superiority. We would be underestimating the Soviet Union if we failed to assume that they are well aware of the soft spots in the economies of the Western democracies—such as the weakness reflected by the persisting post-war inflation leading inevitably to a disruption of the economy. In fact, inflation has already aptly been described as the communists' secret weapon.

11. In face of this menacing situation, it is incredible that recognized experts in the field of economics and finance insist that the only alternatives available to Governments is to allow the inflation of prices to take its course, or by curtailing the money supply, to reduce production and purchasing power, thereby forcing down prices and wages at the cost of economic stagnation and unemployment. The third course advocated is to pursue a compromise between the two extremes, and permit creeping, inflation with some slowing down of economic activity and some unemployment as checks to rising prices and wages. It is submitted that all these alternatives can lead only to disaster in the present grave international situation. Furthermore, it is quite fantastic to infer that our knowledge has advanced to the point that man can put a satellite of his creation into orbit around the earth or the sun, yet he is too stupid to control the operation of an economic system which he himself has devised.

B—PART 1—INFLATION—PRICES—WAGES

1. Throughout this submission the term "inflation" refers to the condition in which an increase of money supply is accompanied by an increase in prices. Price is that function of the monetary system which relates money to goods and determines its purchasing power. Because the monetary system is the organizing mechanism of the economy—being a system of accounting of, and the means for inducing co-operation in economic activities, as well providing for the distribution of claims on goods and services—price is the king-pin of the economy.

2. Price determines the value of the national monetary unit in terms of goods and services, and within the consumer goods field, price determines real incomes. Thus if prices decrease, the value of the monetary unit—its purchasing power—increases; and, inversely, if prices increase, the value of the monetary unit decreases proportionately.

3. During a period of continuing inflation in a country its money is depreciating correspondingly, with serious disruptive consequences to the economy. Real wages and other incomes decline, resulting in a growing pressure for higher wages, salaries and profits, while savings continue to depreciate and people are discouraged from accumulating monetary savings or investing in fixed interest securities.

4. The dangerous feature about inflation is that it creates conditions which accelerate the inflationary trend. The most obvious and widely recognized of these is the growing pressure for increased monetary wages and salaries as real wages and salaries decline.

5. The pre-industrial economic dogma that the price of an article is what it will fetch in the open market is true only for the higher limits of price in an industrialized economy. The minimum price—all important under existing conditions of mass production—is determined by production costs. Therefore, to the extent that wages and other incomes enter into the costs of production and distribution, they must influence prices. And during a period of continuing price inflation and growing competition, recurring increases in wages and salaries constitute increasing production costs which can be recovered by producers and distributors of goods only by means of increased prices.

6. It is the basis of this submission:

(*a*) that the continuous inflation of prices is inherent in our price-costing methods—that is to say in the present price mechanism;

(*b*) that only under conditions of an expanding economy and an increasing money supply, accompanied by increasing monetary, but not necessarily real, incomes, can the system continue to operate;

(*c*) that any attempt to check the continuing price inflation by monetary restriction, or *any other means*, which does not correct the faulty price mechanism, will precipitate economic dislocation.

7. However, before proceeding to an examination of this feature, it is proposed to focus attention upon the grave injustice inflicted upon both management and labour—in particular on the rank and file of labour—and the damage done to the economy by present methods of collective bargaining during an inflationary period.

8. It is entirely reasonable that a labour union, in negotiating a wage agreement for its members during a period of rising prices, should seek to obtain an increase, not only in line with current prices, but demand a scale of wage increases which anticipates that prices will continue to rise. It is also entirely reasonable that management, particularly during recent years, having to meet growing competition and, therefore, anxious to reduce production costs, should tend to resist such demands. As the upward movement of prices continues, and the pressure of competition increases, so the tension between management and labour builts up, and the threat and the actual use of sanctions is invoked.

9. The incidence of strikes and threatened strikes in the Canadian economy during the last three or four years—involving the railways, teachers, lumbermen, fishermen, civil servants, electricians, automotive workers, carpenters, to mention some of the categories—indicates that the existing machinery of negotiation, conciliation and arbitration which is provided is quite inadequate.

10. When negotations are deadlocked and conciliation fails in face of both parties to a management-labour dispute being convinced of the justice of their

case, they are reluctant to agree to arbitration. The history of arbitration is not calculated to inspire confidence in its outcome. The only other course left to the members of the labour union involved is to resort to strike action. In other words, in an effort to force their demands on management they must take direct coercive action by withholding their labour and forcing the company to cease operating.

11. Herein lies the glaring injustice of this recognized feature of our economy, for the rank and file of labour can never benefit, much less gain their demands, by strike action. For example let us assume that a union is seeking a 10% increase in wages for its members, while the management maintains that the company is in no position to increase its production costs and consequently cannot afford any wage increase. A strike is called and let us assume that it continues for two months at the end of which time the union and management agree on a 5% wage increase. Leaving out of account any subsistence strike pay, it would take over three years for the rank and file of the union members involved to get back in increased wages what they lost in incomes during the strike on the basis of their pre-strike pay. However, before that occurred most probably the general price level will have risen to wipe out the increase they had gained. Consequently the company's employees will be worse off as a result of striking. To a greater or lesser degree this is true of all strike action.

12. Not only does the rank and file of labour not benefit from strikes but such action causes lasting damage to the economy. It is not unusual in the case of a major dispute for strike action by the members of one union to force the company to close down their operations and to lay off workers in another union who are not involved in the dispute. Furthermore, in most instances a strike against a company is directed equally against the public and disrupts the economic life of the country—as for example in the case of a transport company, a utility undertaking or a food producing or distributing concern. In fact to some degree strike action by labour, or a lock-out by management, harms everybody concerned, benefits nobody, and inflicts irreparable damage on the national life.

13. However, the question goes even deeper. Wage increases granted to members of one labour union—particularly if engaged in a key national industry like packing plants, automotive plants or railways—are soon reflected in inceased prices in that field, leading to demands from other unions for higher wages. Thus the continual pressure of rising prices keeps nullifying the wage gains of labour, and leads to an unco-ordinated scramble by them to catch up—which merely accelerates the inflationary trend.

14. This has, by usage, become so much a recognized part of our economic life that it is taken for granted. Yet when considered objectively, the glaring injustice to the rank and file of labour, to management and to the general public, is all too apparent. There is evidence of growing dissatisfaction within the ranks of labour and of mounting exasperation on the part of the public, although as yet there does not seen to be any general appreciation of the grave implications which are involved.

15. In Canada we share the British constitutional concept of nationhood as an organism—an organism in which government and people, management and labour, industry and agriculture—in fact all aspects of our national life—should be integrated in serving the common good. Freedom is inherent in that concept of nationhood, and essential to its growth. The bulwark of that freedom is the right of every Canadian to the Queen's justice before the courts. Persons or corporations considering themselves the victims of injustice in a dispute have the right to take their case to a Court of Law, where both parties to the dispute lay all the evidence before a judge who gives an objective decision based on law and the recognized tenets of justice. It would be

unthinkable that, in such disputes, the parties involved should have no option but to settle their difference by taking direct coercive action against each other.

16. The right to invoke the machinery of impartial justice is not only the prerogative of every Canadian, but it is fundamental to law, order and good government under our Constitution. Yet this prerogative is being denied to both management and labour in the vital sphere of industrial relations, and the latter are being left to fight their battles under conditions which must result in harm to themselves and to the national life.

17. This aspect of the impact of inflation calls for early ameliorative action before the damage and disruption to the economy assume menacing proportions. This should be based on those recognized tenets of British justice in which our Canadian Constitution is rooted.

18. Accordingly the following specific recommendations are submitted for the consideration of the Committee:

LABOUR RELATIONS COURTS

The Federal and Provincial Governments, within their respective spheres of jurisdiction, should enact enabling legislation which provides for:

(a) the establishment of permanent Labour Relations Courts (the name is immaterial), which shall become an integral part of the Canadian judicial system.

(b) Each such Court shall be composed of:
  (i) A Chairman;
  (ii) One person having appropriate qualifications and experience in the field of labour;
  (iii) One person having appropriate qualifications and experience in the sphere of industrial and commercial management;
  (iv) The foregoing to be chosen with due regard for the confidence they will command from both labour and management and should be appointed for life.

(c) Labour Relations Courts should have all powers of a Court of Law to take evidence on oath, to compel witnesses to attend and require evidence to be laid before them.

(d) After the ordinary procedure of negotiation has failed to provide agreement, the parties to a Labour-Management dispute—whether concerned with wages or working conditions—should be required to bring their case before the Court concerned.

(e) Strikes and lock-outs should be illegal.

(f) Any wage or other agreement between a company and their employees in order to be legally binding should be approved by a Labour Relations Court.

(g) The ruling of a Labour Relations Court should be binding on the parties to a dispute.

(h) Appropriate penalties should be imposed for contempt of a Court's authority.

19. The Labour Relations Courts would consider impartially every dispute brought before them on the basis of the evidence, and their rulings would be governed by the facts—as bearing on the company, as bearing on the employees and as bearing on the economy as a whole.

20. Such machinery would make it possible for the progressive introduction of company-employee agreements under which wages would be automatically adjusted to the cost of living, with provision for an employee profit-sharing scheme on an equitable basis agreeable to both parties.

21. This method of dealing with Labour-Management relations would greatly strengthen Labour Unions and enhance their prestige. "Collective bargaining" would take a new meaning. The inducement for Union membership would be enhanced. Progressively labour would become a partner with management, sharing in the prosperity of "their Company". Union funds would not be depleted by periodic payments of strike pay and could be used to an increasing extent for direct benefits for their members. Canadian labour unions would gain the independence which is so desirable. But of even greater importance to the national well-being and the health of the economy, the rank and file of labour would acquire a new feeling of security in their jobs.

22. Once established and operating smoothly, such machinery would provide a means for evolving equitable scales of "fair wages" as between different categories of workers in the economy. It will be evident that if such an equitable relationship could be evolved, it would be to the advantage of individuals and to the nation as a whole to accept lower monetary incomes provided real incomes increased—that is to say there was a correspondingly greater reduction of prices to the benefit of Canada's trading position.

23. It must be stressed that in the foregoing recommendations questions o fdetail and procedure have been avoided deliberately. In the first instance it is desirable that the justice and pragmatic soundness of the broad proposal should be recognized and accepted.

C—PART II—THE FAULTY PRICE SYSTEM

1. It is the main contention of this submission that there is an inherent fault in our system of pricing the products of industry, and that this results in a continous inflation of prices which can be checked only by deliberately restricting production and incomes by means of monetary restriction, in order to force down prices at the cost of widespread unemployment, wholesale bankruptcies and general economic dislocation.

2. The argument and the conclusions which follow are substantially those contained in the Report of the Economic Crisis Committee of the Southampton Chamber of Commerce in England. Since it was first published in 1933, some eighteen thousand copies have been issued in response to enquiries from many parts of the world. As recently as July, 1957, the directors of the Southampton Chamber submitted the report as evidence to the Special Committee under the Chairmanship of Lord Radcliffe which was appointed by the United Kingdom Government to enquire into the monetary and credit system, with particular reference to inflation. Moreover the comprehensive and penetrating studies of the American economy made during the 1920's by William Trufant Foster and Waddell Catchings, on behalf of the Pollak Foundation for Economic Research, Newton, Massachusetts, substantially bear out the conclusion of this submission.

3. Price is the core of the problem of inflation. Any investigation into the causes of price inflation should start with a searching examination of the price mechanism in relation to the monetary system instead of taking this for granted and concentrating on various contributory factors. And because price is an integral part of the monetary system, such an examination must necessarily involve a scrutiny of how that system operates.

4. The Canadian monetary system, which is patterned on the system common to all Western countries, is administered by the Bank of Canada—the central bank—and the chartered commercial banks, with over-riding control being exercised by the former. This country is indeed fortunate in having highly efficient banking institutions—universally recognized as such—operating its monetary system. This being the case it may well be asked

why, if there is a serious fault in the pricing mechanism of that system, it has not been uncovered either by our own bankers or economists, or by those of another country, with the exception of those people I have just mentioned. Possibly the reason is the same as that which was responsible for persistence in the gold standard, with its restriction of, and disastrous impact upon, national economies, long after its fallacy had been pointed out. The inertia of tradition has proved to be one of the greatest obstacles to human progress, and often it requires a major crisis or the threat of disaster to overcome it. Today the Western world is face to face with such disaster.

5. Because, by its very nature, the core of the argument which is being presented is not easy to grasp in its relationship to our highly complex modern economy, it is presented in a form which, as far as possible, is non-technical. The indulgence of the Committee is craved, if at times the obvious is stated or stressed. This is merely for the purpose of striving for clarity.

6. The basic principle on which the monetary system operates in relation to economic activity is both simple and manifestly sound. Money is issued to the public as claims on goods and services—i.e. as purchasing power—in the course of production and distribution, through wages, salaries, commissions, profits and dividends. Money, as purchasing power, is withdrawn from the public as goods are purchased for consumption.

7. It is now necessary to consider just how this is achieved. In Canada all our money is issued by the country's banks. The tangible money we term currency—paper bills and coins—is issued by the Bank of Canada. However, this comprises a small part of the total money—less than 20% of the total volume, with which less than 10% of money transactions are carried out. Currency can be described aptly as the small change of the money we use. The great proportion of our money does not exist in a tangible form, but merely as figures in the books of the chartered banks which are transferred from one account to another account by means of cheques. This financial credit—this intangible money—serves all the requirements of tangible money with some additional advantages. And it is this, the main kind of money upon which our economy depends, that is issued by the chartered banks by granting loans to customers and by purchasing securities. Broadly chartered banks issue "financial credit" money up to ten times their cash holdings of currency or the equivalent in deposits with the Bank of Canada.

8. At this point it is necessary to stress in order to avoid confusion in the argument which follows that:

(a) Chartered banks do not lend their depositors' money.

(b) When a bank makes a loan or purchases a security, its action results in an increase of bank deposits—i.e. of the total volume of money in the hands of the public.

(c) When a bank loan is repaid or a bank sells securities, deposits are correspondingly reduced, as is the total amount of money held by the public.

(*Note*: These facts have been stated repeatedly by banking authorities; they are mentioned here only for purposes of clarification.)

9. The first fact to be kept clearly in mind is that all the money in the hands of the public is issued by the Bank of Canada and the chartered banks; that, for example, monetary capital transferred to this country from the United States is essentially a claim on that country's production; but in order to be injected into the economy of this country it must be issued in Canadian dollars through our banking institutions.

10. The operation of the economy can be visualized as providing for a flow of money from the banks to industry and trade for the payment of wages,

salaries and other forms of income in the production and distribution of goods. (For the sake of simplification the transfer of raw materials and goods between producers and distributors is being ignored.) The money so distributed as incomes comprises what for purposes of this argument will be referred to as "the purchasing power pool of the consuming public". Every dollar which is paid out as income and goes into this purchasing power pool enters into the cost of production including distribution. Production costs constitute the basis of price and must be recovered by producers and distributors through the sale of goods in the consumer market. As the goods are sold, the money equal to their prices is withdrawn from the public's purchasing power pool and returned to the banks, either to repay a bank loan or to replace companies' working capital reserves.

11. The point which must be emphasized here is that once a dollar has been withdrawn from the public's purchasing power pool and surrendered in the purchase of an article, it is cancelled as purchasing power except for that portion which is the end seller's profit. There is a widely held view that money circulates in the sense that it can pass from person to person in a manner which makes it possible for one dollar to buy ten dollars worth of goods—in other words that one dollar can provide $10.00 of purchasing power. This "butcher—baker—shoemaker" theory assumes that a carpenter can spend $10.00 of his wages with the butcher to buy meat; that the butcher in turn can use this to buy $10.00 worth of bread, cakes, etc., from the baker, who can use the $10.00 to buy a pair of slippers from the shoemaker. Thus, it is argued, the $10.00 can buy $30.00 worth of goods and liquidate $30.00 of prices. This, of course, is a complete fallacy. When the carpenter spends $10.00 with the butcher, the latter is entitled to only that portion of it which represents his profit—say $2.00. The balance must be applied to repayment of a bank loan if he is working on borrowed capital or to replacing working capital withdraw from his business reserves. If he spends the $2.00 with the baker, the latter in turn can use only that portion of it which represents his profit—say 50 cents. In short, the $10.00 cannot liquidate more than $10.00 of production and distribution costs.

12. To recapitulate, the operation of the monetary system provides for a flow of money to the public from the banks—either originating in bank loans to firms or coming from the latter's working capital reserves. Via wages, salaries, commissions and other forms of income this money flows into the purchasing power pool of the public, and as it is used to purchase goods it is withdrawn from the purchasing power pool, cancelled as purchasing power and flows back to the banks, either in repayment of bank loans or into various working capital reserves of firms. This money will be re-issued as purchasing power—i.e. as incomes—only in respect of a new cycle of production.

13. The next point to be emphasized is that every dollar paid out in incomes by industry and trade constitutes a cost of production or a cost of distribution and must be recovered through prices. Any concern which is unable to recover its production costs for any length of time would soon find itself out of business. This means that against every dollar in the purchasing power pool of the public there is a liability in the form of a price tag attached to goods which must be liquidated.

14. The foregoing applies generally to the operation of the economy as it relates to the production and distribution of consumer goods and intermediate products. However, it takes no account of the method of financing capital production—factories, plant, machinery, railroad, etc. Obviously short term bank loans could not be utilized for this purpose, for such production does not come on to the consumer market, but rather is its consumption spread over a number of years in producing consumer goods or other capital goods. Very

properly the financing of capital production is dependent upon the savings and investments of the public—either by direct subscription or through corporations which mobilize the public's savings.

15. It is in the financing of capital production that a serious defect has developed in our economy. First let us consider the generally held assumption in relating our monetary system to capital goods production. For this purpose let us assume that during a given period the Canadian economy produces $100 million of consumer goods and $50 million of capital goods. Let us assume further that the entire amount of $150 million has been paid out in incomes, and has found its way into the purchasing power pool of the public. We will suppose that the public save $50 million—that they take it out of their purchasing power pool and divert the money to investments for financing further capital production. This leaves $100 million in their purchasing power pool to buy the consumer goods priced at $100 million which are coming on the market. That is the general view of how the system works. It would appear that such an arrangement would work entirely satisfactorily if that, in fact, represented what actually happened. Unfortunately it does not.

16. In order to get to the core of the issue being submitted to the Committee, consider the hypothetical case of a public company which is being organized to manufacture refrigerators. The cost of the plant is to be $5 million to be financed by the issue of shares to the public. However, in order to clarify what happens, we will assume that the company—on the basis of proper security, of course—obtain a short-term loan of $5 million from their bank to complete construction of the plant before going to the public for permanent financing. Further we will postulate—although it is not the case—that the entire cost of the plant of $5 million is paid out in wages, salaries and other incomes and finds its way into the public's purchasing power pool. The company now issues shares for the total $5 million (ignoring working capital requirements) and these are fully subscribed by the public through their savings. This has the effect of withdrawing $5 million from the purchasing power pool of the public—the company get the money, repay the bank loan and the $5 million is retired as purchasing power. In fact it is cancelled altogether with the disappearance of a like amount from the aggregate of bank deposits, and the money will not be re-issued by the bank for distribution as purchasing power except against new production.

17. Now the shareholders of the company, representing "the public", own a plant but nowhere in the economy is there any money representing the cost of that plant. The plant commences production, and the refrigerators come on to the consumer market with price tags attached to them which include all wages, salaries and other incomes paid out in the process of production and distribution—including those paid out by the producers from whom raw material was purchased; the utility company that provided the power and so forth. But, in addition, the company must charge for the depreciation —that is for the consumption by wear and tear—of the plant, and, an amount of say, $500,000.00 per annum is added to the price of the refrigerators to meet this cost.

18. The first fact which emerges is that the public do not possess in their purchasing power pool $500,000.00 or any portion of it for this purpose. Every dollar they possess as purchasing power has been distributed as wages, salaries, commissions, interest or profits and has against it a corresponding price tag attached to goods coming on the market.

19. The second fact which should be apparent is that the public, represented by the shareholders of the company, have already paid for the plant once by buying shares to meet its original cost. Now the public are expected to pay

for it a second time through the depreciation costs included in the prices of the end product without being provided with the means for doing so. Yet it is only fair that the shareholders' monetary capital should be replaced as the users of the refrigerators obtain the benefit of the plant which is being consumed in the process.

20. It may be argued that the money representing the allocated depreciation costs of the plant, when collected through the prices of the refrigerators will be available to make good obsolescence and thus be redistributed as purchasing power. The obvious objection to this argument is that the public does not possess the $500,000 to liquidate these allocated depreciation costs, as all the money in their purchasing power pool already has against it other production costs which have to be liquidated. It is not possible to collect the $500,000 for depreciation of the refrigerator plant without creating a corresponding shortage in relation to other production costs. However, there is a more serious but less obvious objection. Going back to our earlier illustration of a relationship of $50 million capital production to $100 million of consumer goods production during a given period—you will recall that further back when I said let us assume during a given period of time the Canadian economy was producing $150 million, of which $50 million was capital goods and $100 million consumer goods production. Let us postulate that for five successive like periods each representing a production cycle in the economy, the same relationship is maintained—that in each period the public saves and re-invests $50 million in capital goods production. During these five consecutive production cycles, the total volume of money would not have been increased. The $50 million related to capital goods production would have been repeatedly distributed, saved and re-invested and, during the five periods, would have financed $250 million of capital production. As the costs of depreciation of the latter are added to the cost of consumer goods coming on the market, so the inflation of price by such depreciation costs for which no purchasing power has been distributed, will continue to increase at a cumulative rate in relation to money available as consumer purchasing power.

21. In order to gauge the importance of this factor of capital depreciation or obsolescence which must be costed into prices of consumer goods, it is necessary only to consider the vast and increasing aggregation of capital production which enters into the manufacture and distribution of consumer goods—and the effect of including in the latter the depreciation of such capital production all along the line from primary producer to consumer. The resulting inflation of prices by such costs are tremendous, the extent of which will be examined next.

22. Very properly our monetary system provides for the issue of money as purchasing power to the public as goods are produced, and it should be so arranged that purchasing power is withdrawn from the public when the goods in respect of which it was distributed are consumed in the economic sense of having been purchased for use by the ultimate consumer. It is axiomatic that the real cost of production is consumption. That is to say the cost of producing goods is what is consumed in the process. However, it has been shown that with the growth of our complex capitalist economies a serious fault has developed. In any production period, the public have to meet the monetary cost of their entire production. Ignoring the time lag involved they have to pay for their consumer goods by surrendering purchasing power in buying goods in the retail market. And they have to pay for their capital production by saving and investing part of their purchasing power. Thus in respect of any production period they surrender purchasing power for their entire production. However, the public do not consume their entire production for the

period in question, for their capital goods production is consumed over a number of years during which the cost of such consumption is carried into the prices of consumer or ultimate goods, and these costs cannot be liquidated by the public out of the purchasing power which has been distributed. The deficiency in their purchasing power pool to meet the inflated prices is cumulative.

23. It will be objected that if such a serious and glaring fault existed in the pricing system of our economy, the entire economic system of this and other Western countries would have broken down long ago. In point of fact they have on occasions, but notably in the general depression of the 1930's. However, during the recent post-war period all the economies of the Western countries, under managed monetary systems, have been expanding rapidly, so that there has been an expanding volume of many distributed as incomes in advance of expanding production which has enabled the economies to operate. Hand in hand with this feature of economic expansion such devices as deferred payment consumer purchases and export markets have kept these economies—including our own—operating without serious dislocation. However, we have been merely deferring the day of reckoning and it has not been possible to overcome the steady inflation of prices which has resulted. Now we are likely to find that the pressures which are building up as a result of a faulty price system will, to an increasing degree, threaten serious economic dislocation.

24. Messrs. Foster and Catchings, to whom reference was made earlier, had this to say in their book "Profits" published by The Pollak Foundation for Economic Research in 1925:

> This, then, is the conclusion of our argument:
>
> Progress toward greater total production is retarded because consumer buying does not keep pace with production. Consumer buying lags behind for two reasons: first, because industry does not disburse to consumers enough money to buy the goods produced; second, because consumers, under the necessity of saving, cannot spend even as much money as they receive. There is not an even flow of money from producer to consumer, and from consumer back to producer. The expansion of the volume of money does not fully make up the deficit, for money is expanded mainly to facilitate the production of goods, and the goods must be sold to consumers for more money than the expansion has provided. Furthermore, the savings of corporations and individuals are not used to purchase the goods already in the markets, but to bring about the production of more goods. Under the established system, therefore, we make progress only while we are filling the shelves with goods which must either remain on the shelves as stock in trade or be sold at a loss, and while we are building more industrial equipment than we can use. Inadequacy of consumer income is, therefore, the main reason why we do not long continue to produce the wealth which natural resources, capital facilities, improvements in the arts, and the self-interest of employers and employees would otherwise enable us to produce. Chiefly because of shortage of consumer demand, both capital and labor restrict output, and nations engage in those struggles for outside markets and spheres of commercial influence which are the chief causes of war.
>
> To many people our argument may seem to prove too much. How, they may ask, has it been possible to make the great material progress which is evident on every hand? In the United States, during the past century, the output has doubled again and again; railroads have spanned

the continent; great cities have grown up on barren plains; electric lights, telephones, automobiles, phonographs, motion pictures, radio sets, and thousands of other achievements of science and industry, which were wholly unknown a generation or two ago, are now in widespread use. If it is true that the flow of money to consumers is insufficient to buy the output of industry, how has this great output been disposed of?

To a large extent, let us note at once, by methods which are evils in themselves; necessary evils, it seems, on account of deficient consumer income. Some of the stocks which could not be sold have been allowed to spoil or become obsolete. Others have gone into large, permanent increases in inventories. Still others have been wasted in making additions to industrial equipment far beyond the requirements of the markets. The exact extent of this waste is unknown; but it would certainly be understating the case to say that products to the value of a billion dollars a year are used in creating capital facilities which are never justified by the demand of consumers.

Larger still are the stocks of commodities which are sold at prices which entail business losses; and such losses, as we have seen, are extensive. Indeed, the chief means of getting business underway after a depression is selling stocks at prices which not only wipe out all the gains of tens of thousands of men but also set back industry as a whole. This method not only discourages the competent leaders who survive, and not only eliminates the incompetent ones who ought to be eliminated, but also eliminates many of the competent who, in the interests of society, ought to be retained and encouraged. Thus business losses are borne by the community as well as by individuals.

Another evil which has offset part of the deficiency of money incomes is a large, permanent increase in consumer debts. Much of the output which otherwise could not be distributed, consumers have bought through the extensive mortgaging of their future incomes; and in recent years business has felt obliged to resort more and more to this method of making sales. Such a device, however, which at best cannot be extended indefinitely, is itself to a considerable extent an evil. What people need is the means of paying for goods, rather than the means of acquiring goods for which they cannot pay.

("Profits"—pages 409-411)

25. It is not the purpose of this submission to go beyond placing before the Committee *prima facie* evidence that a serious fault exists in our price system, and that that is the basic cause of post-war price inflation; with all the attendant evils of labour disputes and market problems which have stemmed from it; and further to indicate the nature of the action needed to deal with the problem.

26. Turning to the necessary remedial action: It has been shown that in respect of any production period, the public are being charged for their entire production—through the purchase of consumer goods on the retail market and through savings and investments in financing capital production. In addition a demand is made upon them to pay for current consumption of capital production carried forward from the past. Actually in respect of any period of production the public should be required to pay only for their consumption. Should the operation of the monetary system be changed to provide for the issue of new money against *all* new production, including capital production, it would mean that the public would receive as purchasing power money representing their capital production, but this would be withdrawn only as such assets depreciated—that are consumed. This would not solve any problem, for the resulting monetary inflation would plunge the economy into chaos. The other alternative, and the one here recommended, is

that aggregate retail selling prices must be reduced to consumers by the amount by which they have been inflated by capital costs—that is the extent to which a deficiency exists in the public's purchasing power pool. This involves the injection into the system of a flow of additional new money by means which (a) will have the effect of reducing consumer prices to bring them into balance with effective demand, (b) will be equitable, and (c) will not enter into production or distribution costs. The method which meets all the foregoing requirements is to use the additional new money which has to be injected into the economy as purchasing power in the form of a subsidy to reduce retail prices to their economic level.

27. Because, under our present pricing system, the public are required to meet the entire cost of their production in respect of a given period, whereas they should be charged only for their total consumption for that period, then the purchasing power-cost-price relationship would be brought into balance if retail prices were adjusted, by means of subsidies, to bear the same relationship to retail prices as computed at present, as total consumption bears to total production. While such an adjustment could not be made for the current period, there would be no difficulty in making good during the current period the deficiency which occurred in the immediately preceding period.

28. One method by which the foregoing adjustment in the economy could be carried out, and it is the broad method recommended here, is as follows:

(a) Retail stores to be invited to register with their banks for receipt of retail price subsidies.

(b) Registered retail stores to undertake, under the terms of registration, not to exceed what (after consultation with the trade associations concerned) has been established as a fair aggregate gross profit on turnover for their respective categories. They should be required to present properly audited half-yearly accounts in support of their adherence to this.

(c) In return registered retail stores would be authorized to sell their goods at a discount based on the formula indicated in the previous paragraph which would be announced from time to time by the Bank of Canada. Assuming for example the rate of discount was 25%, the retail stores would collect 75% of their prices from the general public and 25% from their banks, who, in turn, would be reimbursed under an arrangement with the Bank of Canada. (This 25% would represent new money to make good the deficiency which has been shown to exist within the system.)

(d) Concurrently with the foregoing measure being introduced, all wages, salaries and rents should be reduced by, say, 10%, thereby reversing the inflationary trend arising from increases in those production costs.

(e) Revision should be made in both Corporation Income Tax and the Sales Tax. Preferably, the latter should be abolished.

29. The immediate effect of the foregoing measures would, of course, be to increase all real incomes, reduce production costs and, in conjunction with the measures suggested in Part I, create a new atmosphere in the economic life of the nation. However, the foregoing is no more than indicative of the nature of the action which is necessary to rectify our faulty price system. Their application would obviously involve other changes in the monetary and fiscal fields.

30. It is submitted that such a fundamental adjustment of our economy alone will bring to it the stability which will provide a sure foundation for future progress.

31. In conclusion it is emphasized that this submission seeks no more than to establish that there is a case—and a well founded case—for a searching investigation into the claim for which *prima facie* evidence has been presented, that there is a basic and serious defect in the price mechanism of our economy—a defect which is pregnant with disaster. Faced with a menacing international situation in which economic stability is a matter of life and death to the democracies, surely we in Canada should not be hesitant in following up any lead which might provide a key to the inflation riddle.

The CHAIRMAN: Thank you very much, Mr. Byrne. There must have been a lot of work put into this brief. As honourable senators all know, we have a very heavy agenda here this morning, so perhaps we can try to minimize the questions as much as possible, although I am not forbidding any questions. Senator Croll has been the first senator to put up his hand.

Senator CROLL: I have an observation to make, Mr. Chairman, which might help. I just want to say that I heard this whole story from a man called John Blackmore, in the House of Commons. This is not new to me. Both Foster and Catchings, who have been suggested as authorities, have been repudiated, and as long ago as 1925. That is all I have to say about the brief.

Senator HAIG: I would like to say this about the brief, Mr. Chairman, that if Mr. Byrne takes the cost of the building out of the bank it means that the public pays it. Is that correct? The bank cannot make money out of the air. If the Bank of Canada issues currency then the people of Canada are responsible for the currency. Frequently people start a business in rented premises—

Mr. BYRNE: That is correct.

Senator HAIG: ... and under this they would not have to pay any rent? There would not be any rent charged against that business?

Mr. BYRNE: That would be a cost of production.

Senator HAIG: That would not be a cost of production under this. For instance, assume I am starting in business, and instead of my building a building I just go and rent a building. Who pays the rent?

Mr. BYRNE: Ultimately, the consumer.

Senator HAIG: That is, under this system?

Mr. BYRNE: Yes, ultimately the consumer.

Senator HAIG: Yes, but does he not pay the same thing when he pays—

Mr. BYRNE: Yes, he does not, and he will then.

Senator HAIG: He will always have to pay it?

Mr. BYRNE: Yes. May I just comment on—

Senator GERSHAW: At page 19, at the bottom of the page, you say:

> But, in addition, the company must charge for the depreciation—that is for the consumption by wear and tear—of the plant, and, an amount of, say, $500,000 per annum is added to the price of the refrigerators to meet this cost.
>
> The first fact which emerged is that the public do not possess in their purchasing power pool $500,000 or any portion of it for this purpose. Every dollar they possess as purchasing power has been distributed as wages ...

Is it not a fact that depreciation is used for buying new plant, and also getting it working?

Mr. BYRNE: That is the point I deal with, senator. Immediately they collect that money out of the purchasing power pool they will create a deficiency against some other products, and they will then use it to finance a new cycle of production with a new set of costs, so that the same deficiency of $500,000 will continue to exist.

Senator GERSHAW: But that is the basic form, as pou point out, and that still does get into circulation when it is paid out for new machinery.

Mr. BYRNE: But against the $500,000 there will be $1 million of costs. That is the point I am trying to make.

The CHAIRMAN: Did you want to answer Senator Croll's remark?

Mr. BYRNE: Yes. I was surprised at Senator Croll's saying that Foster and Catchings were both discredited, because Foster was the director of the Pollak Foundation, and Catchings was the economist of Goldman, Sachs and Company, international bankers, and under their auspices you had people such as Irving Fisher, Hudson Hastings, William Berridge, Maurice Hexter and Paul Douglas, writing.

Senator CROLL: Both of these theories were presented before the Banking and Commerce Committee in 1954 by the people known as Social Creditors who where then in the House of Commons. After ample examination it was decided that these were a couple of people who had decided thay would write a book, and they have never been heard of since. They have been forgotten, and repudiated.

Mr. BYRNE: I was not aware that the Pollak Foundation was such a "man of straw".

Senator BUCHANAN: Honourable senators, I happen to have suggested that Mr. Byrne present this brief. I must say that I was largely interested in the labour relations rather than the latter part that was brought forward. I was interested in that because there was a small group of us in Edmonton who where very much interested in labour relations. In fact, I have been interested in labour relations all my life. I have employed labour ever since I was a very young man. I consider my workmen some of my best friends. We have worked together, but we were trying to work out something that would be equitable, and something that would cure some of our present problems. Therefore, I was very much interested in the former part of the sketch rather than the latter. I had not heard the latter part of it and I have not gone into it sufficiently to evaluate it, but I do think if we are asking questions we should give some consideration to the first part, which is something we are all interested in. There is no doubt about that, and it is a problem we have to work out.

Senator CROLL: Let me just say, Mr. Chairman, that I stayed away from that deliberately and I have no objection—and I do not thing anyone else here has—to a responsible organization coming here and saying whatever they want to. This is a free country, and that is what we have had. We have here now an individual who comes and makes an irresponsible attack on labour. If he thinks that labour courts are something new in this world I need only refer him to Australia where they have been in existence for a period of years with more labour trouble than in any comparable country. So there is nothing new there at all. I deliberately did not deal with it, but I do realize, Mr. Chairman, that you did not know what the gentleman was going to say. I thought we were to invite here people who represented responsible organizations and groups known in the community and that they could say what they liked, as they have in the past, but when you open the door in this way you open the door very wide. I don't blame you. You didn't know what was likely to be in the brief, but that is what it was, as it turns out.

The CHAIRMAN: Are there any more questions? If there are no more questions I want to take this opportunity to thank you very much for your brief, Mr. Byrne. I will now call upon Mr. Paul-Emile Charron, Assistant Secretary of the Federation des Caisses Populaires Desjardins, Levis, Quebec.

Mr. Paul-Emile Charron, Assistant Secretary, Federation des Caisses Populaires Desjardins: Mr. Chairman and honourable senators, the Senate of Canada is definitely entitled to the gratitude of all the citizens of our country for that study its Finance Committee has undertaken concerning the present inflation period and the steps to be taken to assure both the stability of prices and the general prosperity which must be the main objectives of our national economic policies.

I appreciate deeply this privilege given to me to appear before the Senate Committee and to lay before you some opinions of wide scope character on inflation.

Inflation has connotations or significations which vary with people according to their different interests. To the majority of the consumers, inflation means higher and higher prices for the merchandise, property and services they pay for. To the industrialists, inflation means a higher production cost which will have to be compensated for by a larger sales volume or by an improved production if they do not want to raise their sales prices and if they want to meet competition and maintain their profit margin. To those who have money to invest, to lay out to advantage, inflation means a reduced purchasing power of their money which they will effort to compensate by investments susceptible to return a higher profit. To the financial institutions, inflation means a depreciation of the set investment values and a cost of operation which tends to increase, depreciation which they will perhaps try to compensate by a larger number of loans at higher interest rates. To the farmers, inflation means higher prices for professional utility merchandise which they must buy and which, far from it, they have not the occasion or opportunity to compensate by higher agricultural prices.

Can we reproach the individuals and the enterprises to try to protect as best as they can against inflation? The workers by trying to obtain better wages; the industrialists by trying to increase their production and their productivity, if not their sales prices; the financial institutions by loaning more and at higher interest rates; the investors by purchasing values the prices of which may rise...

By inflation we mean an increase of the prices level, a generalized increase in prices provoked or set off by expenditures which are at the limit or which shall exceed those which would require the maximum production of a nation.

Such a definition excludes the increase in certain prices which are reajusted to a changing economic situation, just as well as it excludes an excess of currency in circulation which can be a reason for inflation.

Some people talk about inflation as if it was a disease of the currency, wishing, without doubt, to stress that the best medium of exchange loses its value, deteriorates when there is a prices increase.

Inflation, therefore, means an increase of prices level, and this generalized increase of prices can be slow or fast.

This definition of inflation seems to describe what our country, like others, have witnessed since the arrival of the great economic expansion which started with the last world war.

In fact, since 1940, we have had a general increase in prices as shown in the following Table entitled—PRICES INDEX—1938-1958.

These figures which establish the prices index for the period 1938-1958 on the basis that 1949 represented 100 were taken from statistics released by the Federal Bureau of Statistics in Ottawa. They prove with evidence that we have had a rather considerable prices inflation during the course of the economic expansion period of 1940-1958.

During the war, that is from the end of the year 1939 to 1945 inclusive, the prices index for the consumer has increased from 63.2 to 75, the wholesale prices index from 50 to 66.6.

Since the end of the hostilities, that is, since 1945 to 1958, the prices index at consumer level has increased from 75 to 125.1. Looking over the whole war and post-war period, the prices index at consumer level has gone up from 63.2 to 125.1, an increase, therefore, of 99 per cent.

The purchasing power of the Canadian dollar, as a consequence, has been reduced almost by half since 1939. Therefore a doubled income is required today to purchase the same merchandise sold in 1939 since prices, to say the least, have also doubled since 1939. An average family which earned $10,000 in 1939 must earn $23,568 today to be assured to maintain the same standard of living, according to The National Industrial Conference Board that has established in a sadly eloquent balancing of accounts how the salaries, wages or income should have increased to compensate the loss in purchasing power suffered in the last twenty years.

Income 1939	Income 1958 with equivalent purchasing power (after taxes)
$ 3,000.	$ 6,457.
5,000.	11,140.
10,000.	23,568.
25,000.	69,991.

The saving dollar of 1939 has lost for all practical purposes half of its value. The dollar set aside in 1949, today is worth only 80 cents. Those who have set revenues or income are caught in the vice of inflation. They very well realize that if their income is a set one, the value of that income is not stable and that it goes down as the cost of living goes up.

Prices inflation has reduced by many hundreds of millions of dollars the value of savings deposits, Canada Savings bonds, and the billions of life insurance in force across the Canada.

Inflation makes a farce of the virtue of building reserve funds and ruins saving. Saving has no more recompense, to the contrary, it loses its sense, its value. It comes to saying that it is wrong to have savings unless they are invested in enterprises which bring back more than the loss inflation is costing our saving population.

Those who received 3 per cent on their savings in 1958 have gained nothing since the cost of living index has gone up from 121.9 to 125.1 in 1958 and has absorbed that gain.

Our dollar, which serves as an exchange intermediary, loses its value, deteriorates with the prices inflation. And this erosion or deterioration of the dollar which results from the prices inflation is a source of social injustices and may become, if it continues, to cause the ruin of the nation.

Our fate seems fatally linked to deep and disastrous economic fluctuations, since, after having fought during the years 1930-1939 against a depression which brought us a train of physical and moral sufferings, we have to protect ourselves now against the depreciation of our currency.

Senator HIGGINS: Would you mind going back to the paragraph of the brief, which reads as follows:

> Those who received 3 per cent on their savings in 1958 have gained nothing since the cost-of-living index has gone up from 121.9 to 125.1 in 1958 and has absorbed that gain.

Should that not read "3 per cent on their savings in 1953"?

Senator VAILLANCOURT: In 1958 the cost-of-living index had gone up three points, from 121.9 to 125.1.

Senator BURCHILL: It all happened in one year.

Mr. CHARRON: Yes. (*Continuing*) But, we must recognize that the science of economics has done much progress since 1930.

The great economic depression of 1930 and the national and international perturbations which followed have forced us, so to speak, to make a serious survey of our economics' ideas.

We were witness that during those years of economic depression the good workers as well as the not so good lost their jobs and that the well administered enterprises shared a similar fate with the not so well administered institutions.

We could note with regrets during those years of depression that many citizens lost faith in our economic and political institutions. We finally understood that economic laws were not ineluctable and that we were wrong in trying to assimilate them to the laws which govern the physical world.

The political thinking has also gone through a considerable evolution, to the point that Governments, whose responsibility is to promote the public weal favorizing through the good channels at their disposal, unity, order, stability, security, liberty, peace and progress, admit that they have a supplementary role required to assure economic prosperity and that they must contribute efficiently to an economic policy susceptible to assure full employment, a greater production, suitable living conditions for all citizens and a reasonably stable prices index.

The prosperity of the nation rests fundamentally upon the will and the initiative of the citizens who try to improve their personal living condition, that of their families and of the social communities to which they belong. The prosperity and progress of a nation depend more upon what the citizens can and must accomplish than upon what the Governments can carry through.

However, it remains true that Governments can and must help them, efficiently and powerfully assist them in their efforts in the application of policies which stimulate the citizens to act so as to build that prosperity upon solid foundations.

The effort accomplished by the citizens with the precious collaboration of the Governments, these last thirty years, to develop the national economy, assure full employment, improve the living conditions of the individuals, were crowned with success.

Nevertheless the purchasing power of the dollar of the Canadian consumers was not maintained. One may wonder if those who have headed the industrialized countries since the end of the hostilities did not fear regression to the point that they did not really believe in inflation and whether they are ready to take as decisive steps to check inflation as they appear to be to fight regression.

In Canada, did we not take for granted, as insinuated the Canadian Deputy-Minister of Finance at the Federal-Provincial reconstruction conference of 1945 that the noticeable reduction of governmental expenditures through the cutting out of war contracts would likely put an end to the inflationary expansion and that the inflation could be followed by a sharp deflation susceptible to provoke much unemployment with physical and moral miseries and social troubles.

We all remember that the war which was costly in human lives and money had left our country faced with a serious problem of reconversion, a considerably increased national debt, and a disorganized foreign trade. The main concern of the Government seems to me to have been at that time to assure a stable level of employment and a fair national income to amortize gradually the national debt and institute or maintain the necessary social security measures such as family allowances, pensions to veterans, financial assistance to housing, agricultural prices support, industrial expansion bank, and low interest rates to encourage investments, as many measures aimed at avoiding the pre-war economic situation and the social troubles it could father.

The Canadian Government authorities took steps which appear to have contributed to block regression they feared and to assure an economic expansion which maintain itself until 1954. Prices at consumer level went up from 75 to 116.2 from 1945 to 1954. The years 1954 and 1955 showed a certain stability in prices, the years 1956-57-58 showed a gradual, slow, crawling or creeping inflation of 2 or 3 per cent per year. Some years are therefore marked by an interruption in the rise in prices. They showed a stability of prices which made us believe that the prices inflation had ended and that we could experience a period of economic regression. That is, in fact, what has happened in 1954 (Refer to Table II) when were recorded a decrease in the production, a drop in employment, reduction in private expenditures, private and public investments, due, without doubt, to certain difficulties which have arisen on the international market because of the American regression which occurred in 1953 and which strong measures taken by the American Government successfully eliminated. Thus economic expansion resumed its course in 1955 and brought along a noticeable rise in the production, private and public investments and personal income.

The public is much more afraid of depression than inflation. It has retained a bad memory of the economic depression and it does not want to live through it again. It will require that the Federal Government takes the necessary steps to check unemployment, but it will tolerate with difficulty that the Government imposes anti-inflationary measures which call for sacrifices.

The citizens shall have to understand, however, thanks to an appropriate education, that this creeping inflation which we have experienced since 1956 will have to stop because it is not necessary to economic progress and because it can become, if it continues to develop, a serious obstacle to the maintenance of economic prosperity.

The steps to be taken to fight inflation require definitely more courage and foresight from the Government authorities than the measures required to check depression. On the other hand, we have made progress in the understanding of economic fluctuations and the ways and means to reduce them. And we believe that the governments shall not accept that this creeping inflation continues much longer nor that they will accept that the nations live again the economic depression years of 1929 to 1933.

The difficulties which arise in the discussion and the settlement of this contemporary question of inflation seems to come in great part from the fact tthat we believe generally too much that there exists but one kind of inflation and that, therefore, there is only one group of efficient means to check it. It appears to me essential to the settlement of inflation to recognize the fact that the difference between an inflation and another may be no less important than their similitudes if we want to apply the appropriate remedies. The great historical inflations seem to me to have had this common basic element: a lack of consumers' goods as regards considerable private income due to the fact that the Governments had appropriated for military or other reasons the resources normally used or useable for the production of consumers' goods and that they could not or did not want for certain reasons reduce the resources

intended for consumption by the imposing of taxes adequate enough to assure a certain balance between the demand for consumers' goods and consumers' goods available at the current prices level. Thus showing a deficit, they had to have recourse to loans and to the issue of paper-money to finance themselves and they had to establish direct controls on the salaries and prices if they wanted to avoid prices to climb too much and not in proportion with the various economic sectors.

An excessive demand as regards goods available is not the only cause of inflation. The moral of the population and its readiness to accept controls in wartimes and the changes in the standard of living brought about by the war may be no less important than the exaggeration of the demand in the prices behaviour. Countries have experienced inflation not so much during a wartime period when the Governments could appeal to the patriotism of the citizens to accept the required sacrifices than after the war when the citizens did not want to tolerate anymore the hardships of war.

The great inflations in history originated from the lack of balance between the demand for consumers' goods in regards the availability of money following the appropriation by the Government of the national resources without an equivalent appropriation of personal income by way of taxation, thus making it so that the availability of money exceeds the available consumers' goods.

A situation similar to that prevails in wartime may be created in peacetime following the excessive utilization of the national resources by enterprises for investment purposes in production capital thus reducing unduly the real resources available for consumers' goods. One may ask oneself if the great concentration of capital expenditures for production goods is not one of the factors which have contributed most to inflation in Canada. The considerable expansion of investments has attracted here, as everyone knows, billions of dollars. We have had in Canada since the war a considerable development of private and public investments. These investments have climbed from $1,028,000,000. (B) in 1940 to $8,794,000, 000 (B) in 1957. The investments for production goods have distributed a considerable purchasing power which has intensified the demand for consumers' goods, contributing to prices increases and the depreciation of the value of the consumers' dollar.

An inflation which is not necessarily caused by an excessive demand as regards the goods available can also happen. Such a situation can be verified when industry makes the consumer pay for the salaries and wages increases it grants its organized employees and when these salaries and wages increases exceed the productivity of the enterprise.

Such a factor increases the production cost and can contribute to inflation, just as the production cost may rise due to the increase in the prices of the imported raw materials.

In the industrialized countries which have experienced a considerable economic expansion since the last war, the growing demand has produced a certain shortage of materials, particularly in the metal industries where a rise in the prices of materials in great demand took place and this price increase has influenced the prices level in other economic sectors.

Did productivity which has made great progress in industry due to progress in technology compensate completely, in the last years, the salaries and wages increases which organized labor has obtained to assure the wage-earners a better or more equitable share of the national income?

The recent inflation—1957-58:

The year 1957 seems to have marked a turning point in the economic development curve of the industrialized countries. In the countries of North America the rate of the economic development tends rather to stabilize. It experienced a certain slackening during the last part of 1957. The United States

and Canada seem to have heavy surpluses and seem to have reached an excessive production capacity. The year 1958 showed a slight increase of the net national production and of the available personal income but a contraction in the private investments and a noticeable increase of the personal savings which has risen from $1,467 million to $2,096 million from 1957 to 1958. The Canadian Government anxious to avoid regression has increased its expenditures and its investments and showed a budgetary deficit. This important factor of economic stability which guarantees the high level of government expenditures coupled with those other stabilizers that are the unemployment insurance payments and the farm products prices support grants have been acting as a brake to check the decline of the economic activity and assure a certain regularity in the economic development of the countries.

But, how to explain that despite the existence of these heavy surpluses and the excessive production capacity we seem to have reached, the prices level has continued to climb, rising from 118.1 to 121.9 from 1956 to 1957 and from 121.9 to 125.1, from 1957 to 1958, and that the overall wholesale prices index went up by 2 per cent. Such a phenomena, rather paradoxal, has given birth among the leaders to a great concern over this creeping inflation which seems to be establishing itself permanently here and thus become the greatest obstacle to the upkeep of the economic prosperity and of the social security. Such a concern has shown in particular during the debates of the Economic and Social Council of the United Nations at their 24th Session held in June-July 1957, which adopted a resolution asking the Secretary-General of the United Nations to proceed to a complete study of this problem of inflation.

The leaders of the economic and political world are asking themselves what is this kind of inflation which can thus co-exist with the recognized tendencies to the economic regression. The fear of depression and of unemployment seems now to have given place to the fear of a creeping inflation, which some consider unavoidable, as the price of the growing economic prosperity.

This inflation does not seem to generate from the abnormal forces of the war and post-war, and if this inflation does not seem to be a temporary danger like the wartime or post-war inflation, it appears as a constant threat to the stability of the economy which wants to progress.

It has been believed until then, if we judge by the literature on this matter, that inflation could be only the ineluctable consequence of an excessive demand in the face of a lack of available goods. We have, knowingly or not, simplified too much the phenomena of inflation appreciating it in regards to the law of offer and demand which sets the prices. Other factors than those of offer and demand for goods and services can intervene in the fixation of the prices. In his recent book entitled "The Affluent Society", professor John Kenneth Galbraith, of Harvard University, writes under the Chapter of Inflation:

> When supply cannot be readily increased, as will be the case at capacity production, further increase in demand are capable of bringing price increases. A distinction must be made between two parts of the economy. In the part of the economy where, as in agriculture, there are many producers and an approach to what economists term pure competition, no individual seller controls or influences prices. These prices will move up automatically in response to the increased demand. In the typical industrial market-steel machinery, oil, automobiles, most non-ferreous metals, chemicals—a relatively small number of larger firms enjoy, in one way or another, a considerable discretion in setting prices. In these markets—those characterized by what economists call oligopoly—as capacity approached it becomes possible and profitable to mark up prices. In the years following World War II, prices continued

> to rise in much of the oligopolistic sector of the economy: i.e. where strong unions bargained with strong firms right through the recessions of 1949 and 1954, prices as a whole were stable only because those in the more competitive markets were falling.

Inflation has become an excessively complex phenomena and it cannot, in the content of our contemporary economic life, be brought back to the simple equation: the excess of the demand over the bid equals automatically inflation. Inflation cannot, in the economic circumstances in which we live, be placed necessarily at the extreme opposite of regression, similarly the rise of the prices level may result not only from an excessive demand but also from certain structural aspects of the prices mechanism.

It is useless to state that an excessive demand remains naturally the main cause of inflation just as an insufficient demand for goods and services remains the first cause of unemployment. But, just as unemployment can result from certain factors which have little relationship with the demand, similarly inflation can well result from difficulties which hamper the production capacity. The management of the enterprises may well also widen its profit margins and the organized labor forces obtain salaries and wages increases without the law of offer and demand being taken in consideration in either case. The profits and salaries increases may have their influence on the prices level if they show in higher sales prices the consumers will have to pay. The prices increase can just as well result from salaries and wages increases or the widening of the profit margins than from an excessive demand for goods and services.

It is understood that it is natural that in the absence of national wage price policies, the labor unions and the corporations try to get the maximum of salaries and profits. We then ask ourselves in the industrialized countries how to reconcile an economic development which wants to set up reasonably high employment level with the stability of the prices in the conditions of a minimum intervention in the mechanism of the market. There exists a dilemma which is not easy to solve. If inflation was necessarily the result of an excessive demand, the conflict between the economic progress and the prices stability could find a solution in fiscal and monetary measures which would assure a certain balance between the rate of increase of the demand and the production capacity.

But, unfortunately, the present inflation is not, it seems to us, solely a question of desequilibrium between the demand and the production capacity.

Can we sustain that the prices in the industrialized countries during these last years can be attributable generally to an excessive demand. It seems to us that the sectors of the economy, except perhaps that of the durable goods, had a production capacity in relation with a demand, even increased and that even had, it well seems, surpluses. The prices level seems to have a tendency to follow the salaries and wages and the cost of materials. In the rise in prices which occured during the Korean war, the salaries and wages do not seem to have played a role as important as the higher cost of materials although the salaries and wages increases seem to have been a factor in the inflation of prices in the industrialized countries during the period 1950 to 1957.

We can barely hope that the salaries and wages end completely their rise as long as full employment is maintained. The growth of productively in a dynamic economy may lead to hope for a certain reduction in prices or absorb an increase in salaries and wages in the industries and move aside the prices increase.

A deep study of the problems linked to the cohesion of the structure of the prices between the sectors of the economy and the behaviour of the large base industries which can determine the prices, would perhaps give us data susceptible to help us well understand the dilemma in which the continued prices increase in an economy which sees unemployment places us.

In the industrialized countries such as Canada and the United States, the prices increase in these recent years does not appear to result from an excessive demand.

As a result of the continuously increased productivity during this quarter of a century due to the progress of technology and the great production capacity we have reached, our country will have to look for a rate of economic development as regular as possible and less accentuated than that which has prevailed during the course of the years of a great economic expansion.

The Government authorities will have to attempt to regulate the economic development and to assure the best balance possible between the production of capital goods and the consumer's goods production as well as that of services.

In an economy of full employment (a certain margin of unemployment is inevitable and even considered necessary to economic progress) a greater production of capital goods sets a limitation to the production of consumers' goods. The demand, increasing as a consequence of the rise in revenue without there being a corresponding development in the offer of consumers' goods, can develop a situation slightly similar to that created by war where the production of consumers' goods by force of things gives place to the production of war goods and where the demand becomes excessive as a result of the growth of monetary availability in the face of a shortage of consumers' goods and provokes a rise in prices.

Mr. Arthur F. Burns, late president of the Council of Economic Advisers of the President of the United States, concluded his very interesting book "Prosperity without Inflation", published in 1957: "The Secretary of the Treasury has recently announced that informal meetings are to be held from time to time with the President, which will bring together the Chairman of the Federal Reserve Board, the Chairman of the Council of Economic Advisers, the Special Assistant to the President concerned with economic matters, and the Secretary of the Treasury. I hope that this development, which rightly recognizes the importance of the Federal Reserve System in the economic scheme of government, will soon lead to the larger and more formal Board that I think is required to cope with our major and changing economic problems. The nation needs greater assurance than it now has that our government is equipped to deal on a consistent basis with the threat of inflation. It likewise needs assurance that the government or one of its central organs will not become so engrossed in the long-run problem of creeping inflation that any immediate problem of recession is neglected. Needless to say, the reconstruction of the Board on Economic Growth and Stability along the lines that I have sketched, will not of itself prevent mistakes in economic policy-making. It will, however, provide a maximum of opportunity for balanced judgment and it will facilitate the early correction of governmental policies that are found wanting.

Reasonably full employment and a reasonably stable price level are not incompatible. We have often come close to this ideal in the past, and we have done so again recently during the years from 1952 to 1955. The matters that I have stressed in these pages—explicit recognition of reasonable price stability among the objectives of the Employment Act, improvement in the practical workings of monetary and fiscal policies, the reduction of monopolistic practices, and better organization of economic policy-making—will not be attained without great and continuing effort. But if I am right in thinking that these measures will significantly improve our chances of maintaining a reasonably stable consumer price level as well as reasonably full employment over a long span of years, the effort is surely worth making."

Mr. J. E. Coyne, governor of the Bank of Canada, in his last annual report to the Minister of Finance for the year 1958, wrote: "I believe that monetary policy must strengthen and re-affirm its determination to remain true to the

basic principles of sound money. Perhaps the greatest obstacle to the proper use of monetary policy is the spread of the theory that democracies cannot have both high employment and stable prices, that they must inevitably choose between unemployment and inflation, that high employment can only be achieved by the acceptance or even the deliberate creation of some degree of inflation. I am certain that these views are fundamentally wrong. The idea that readiness to create or tolerate inflation can make a useful contribution to the problem of maintaining a high and expanding level of employment and output, is in danger of becoming the great economic fallacy of the day. In the end, inflation creates more unemployment than it temporarily cures; it badly hurts many who have no way of protecting themselves against it; it discourages economic efficiency and lowers productivity; it is the great destroyer of economic order and social stability. I do not suggest that the goals of sustained growth, high employment and stable prices can be achieved by wise and determined monetary action alone, but they can be seriously jeopardized by unwise or uncertain monetary action. Democratic society can surely work out ways and means of fostering sound economic growth, and of dealing satisfactorily with unemployment if it arises on a significant scale from time to time, without resorting to debasement of the currency.

In a country like Canada, which is greatly influenced by conditions in foreign markets, it is of course impossible to insulate our economy entirely from the contagion of inflationary influences originating abroad. We can, however, by our own actions restrain inflationary factors of domestic origin and prevent them from getting out of control. If we fail in this, our costs of production will rise above those of other countries with which we trade or with which we compete in foreign markets, with serious consequences for everyone in Canada."

TABLE 1

PRICE INDEXES 1938—1958

(1949 = 100)

	Implicit Price Index, G.N.E.	Consumer Price Index	General Wholesale Price Index	Canadian Farm Products Price Index
1938	59.5	63.7	51.4	45.0
1939	59.1	63.2	50.0	40.5
1940	61.8	65.7	54.5	42.0
1941	66.7	69.6	58.7	46.6
1942	69.7	72.9	62.0	55.6
1943	72.2	74.2	64.5	63.6
1944	74.4	74.6	65.9	67.9
1945	76.1	75.0	66.6	72.8
1946	77.7	77.5	70.0	78.5
1947	85.2	84.8	82.3	84.0
1948	96.1	97.0	97.5	101.5
1949	100.0	100.0	100.0	100.0
1950	103.1	102.9	106.5	103.5
1951	114.1	113.7	121.1	117.4
1952	119.8	116.5	114.0	109.4
1953	120.3	115.5	111.3	96.9
1954	123.2	116.2	109.4	93.4
1955	123.3	116.4	110.4	92.4
1956	127.9	118.1	113.8	93.7
1957	133.5	121.9	114.7	92.8
1958	136.2	125.1	114.9	95.5

SOURCE: Dominion Bureau of Statistics.

TABLE 2

SIGNIFICANT CANADIAN STATISTICS

	Gross National Product	Currency and chartered bank deposits	Personal Disposable Income	Government Expenditure	Private Expenditure	Public Investment	Business gross fixed capital formation	Personal Saving	Total private and public investment in Canada	Population (Thousand persons)
					(millions of dollars)					
1938	5,278	—	3,953	666	4,546	162	592	56	754	11,152
1939	5,636	2,997	4,178	683	4,858	154	592	194	746	11,267
1940	6,743	3,014	4,775	1,116	5,546	225	803	287	1,028	11,381
1941	8,328	3,405	5,555	1,635	6,276	380	1,085	452	1,465	11,507
1942	10,327	4,081	6,898	3,674	6,699	492	1,064	1,398	1,556	11,654
1943	11,088	4,948	7,344	4,177	6,515	634	887	1,536	1,521	11,795
1944	11,850	5,895	8,027	4,978	7,029	443	900	1,753	1,343	11,946
1945	11,835	6,722	8,311	3,656	7,689	289	1,031	1,342	1,320	12,072
1946	11,850	7,038	8,923	1,796	9,752	286	1,388	892	1,674	12,292
1947	13,165	7,236	9,584	1,541	11,578	355	2,085	494	2,440	12,551
1948	15,120	7,898	11,079	1,797	12,817	468	2,619	994	3,087	12,823
1949	16,343	8,210	11,849	2,127	14,004	507	3,032	926	3,539	13,447
1950	18,006	8,763	12,688	2,344	15,924	588	3,348	662	3,936	13,712
1951	21,170	8,759	14,794	3,271	18,333	780	3,959	1,334	4,739	14,009
1952	23,995	9,307	16,072	4,279	19,744	1,040	4,451	1,291	5,491	14,459
1953	25,020	9,789	16,904	4,432	21,173	978	4,998	1,312	5,976	14,845
1954	24,871	10,314	16,984	4,461	20,824	942	4,779	809	5,721	15,287
1955	27,070	11,397	18,329	4,780	22,955	1,034	5,210	865	6,244	15,698
1956	30,182	11,438	20,238	5,266	26,286	1,260	6,774	1,541	8,034	16,081
1957	31,443	11,923	21,235	5,612	27,299	1,405	7,335	1,467	8,794	16,589
1958	32,184	13,247	22,809	5,994	27,226	—	6,899	2,096	—	71,048

SOURCES: Dominion Bureau of Statistics
Bank of Canada, Statistical Summary.

The CHAIRMAN: On behalf of the committee I would like to thank you, Mr. Charron, for this very fine brief, which will appear in our printed proceedings.

Senator BOUFFARD: What I want to know is what proportion of income tax is responsible for the increase of money you need when you compare 1939 to 1958.

Mr. CHARRON: From 1939 to 1958 the value of the dollar went down by 50 per cent, which means that mathematically the difference has been absorbed by taxation.

Senator BOUFFARD: So out of $69,991 which you need in 1958 compared to 1939, there is about $20,000 worth of income tax. In other words, if you double $25,000 you need $50,000, and then the balance is tax?

Mr. CHARRON: Yes.

The CHAIRMAN: If there are no other questions I think we will adjourn now until 2 o'clock when we will hear from the Alberta Wheat Pool delegation.

—Upon resuming at 2 p.m.

The CHAIRMAN: Honourable senators, I call the meeting to order; we have a quorum. I will ask Mr. Harrold, President of the Alberta Wheat Pool to come forward, please.

G. L. Harrold, President, Alberta Wheat Pool: Honourable chairman, and members of this committee:

THE PROBLEM OF INFLATION; ITS EFFECTS ON AGRICULTURE AND SOME SUGGESTIONS FOR CONTROL

Any useful analysis of inflation must determine the real problems imposed on society. Our objective in this brief is to point out that inflation does work social and economic injustices on certain sectors of the economy and for this reason more positive control measures should be enforced. We are primarily interested in the case for agriculture, specifically western grain production, since our organization is intimately involved in this field of industry and represents about 50,000 grain producers in Alberta. These producers are part of one of the sectors of our economy that is adversely affected by current trends of inflation.

It is generally agreed that so-called "galloping inflation" is harmful and undesirable. By galloping inflation we mean general price increases that are proceeding at a rapid enough rate to undermine confidence in the monetary system and traditional methods of saving. Once it becomes difficult to finance new investment from savings, capital spending tends to be restricted and the stage is set for the downward phase of the business cycle. Moreover, the Canadian economy is particularly sensitive to fluctuations in capital spending since a high proportion of gross national product is devoted to capital developments. Compared to capital spendings share of 16 to 17 percent of G.N.P. in the United States and United Kingdom during the past five years, the Canadian figure averaged 23 per cent for the same period. Furthermore the Gordon Commission estimates that capital spending will average 24 per cent of G.N.P. by the years 1979-1981. The more serious inflationary tendencies therefore would, in a short time, lead to a situation which would endanger Canadian economic growth.

While the consequences of galloping inflation are generally feared, there are, however, a number who believe that "creeping inflation" (2 to 3 percent price rise annually) is not harmful. In fact, this group has proclaimed that a gradual increase in price levels is a small price to pay for insuring we have full employment. Despite this claim, it is evident that creeping inflation in Canada has not assured us of full employment. Since 1950 unemployment has shown a distinct upward trend as have consumer prices. Moreover, since 1953, yearly average unemployment has been greater than the 3 per cent level which the concept of full employment allows. Must we then have a higher rate of inflation to provide us with full employment? If so, does this not mean that we must move closer to the dividing line between creeping and galloping inflation (if such a boundary can be determined)? There are no ready answers to these questions. There is some indication, however, that the dangers of creeping inflation becoming galloping inflation are greater than generally believed.

In spite of the potential harm for the economy that exists because of creeping inflation, there has been a certain measure of success in defending it against various criticisms. For example, the critics' claim that creeping inflation destroys the will of the people to save and imposes hardships on pensioners, is met with reasonable countering arguments. It is held that as

long as the rate of inflation does not exceed the going rate of interest on savings, then there is no real loss to those doing the saving. The same argument applies to pension funds. As long as the interest rate on funds paid into pension schemes exceeds the rate of general price increases, then pensioners will get more real purchasing power from the pension than was paid in. This, however, it not a complete defence for inflation. There are other sides of the issue which do not portray creeping inflation as nearly so harmless a phenomenon.

As a trading nation, Canada is vulnerable to inflation. Any process which increases our cost structure and raises the prices of our goods in foreign markets naturally reduces our competitive advantage in these markets. In fact, the Minister of Finance has recently voiced the fear that we are pricing ourselves out of foreign markets. With the export trade averaging 21 per cent of G.N.P. in the past five years, it is evident that sudden loss of this trade would have adverse effects on the economy. This fact alone is ample reason for being concerned about inflation.

Further disadvantages of inflation are found within the structure of the local economy. While certain groups have readily available hedges against inflation, others have not. Labour unions, with their strength in bargaining power and escalator clause contracts are able to insure that workers' wages increase at a rate at least equal to the rise in consumer prices. In fact, the January 17 issue of the *Financial Post* reveals that real wages have kept ahead of prices. After pointing out that the rise in real per capita personal incomes slowed in 1958 and per capita personal expenditures declined, the *Post* states it is significant that real wages continue to keep ahead of prices. This publication concludes that wage earners with the strongest bargaining power are still gaining at the expense of other Canadians. Average rates of change of retail prices and average weekly wages and salaries can be compared in Chart 1.

I would like to pause here, Mr. Chairman, to point out that there are three charts and two tables following page 10 of this brief. The figures given are D.B.S. figures. Chart 1 uses 1949 as 100, and is a comparison of changes in retail prices and manufacturing wages 1949-58. It goes from 100 to 160 from 1949 to 1958; and retail prices according to D.B.S. figures are at approximately 125 from 1949 over the same period.

(Continuing) Private industry is also afforded some protection. It, in turn, appears able to pass on the burden of increased labor costs in the form of higher prices. The burden of inflation therefore falls most heavily on groups least able to protect themselves. The predominant groups are the fixed salary workers and those engaged in agricultural vocations.

Obviously, burdens of inflation result from divergent price movements which tend to reduce real incomes of those affected. The most well known example is that of the fixed salary worker whose income does not increase in proportion with living costs. As has been much publicized, a similar price situation exists in agriculture. It is evident that farm costs have increased at a much greater rate than have prices received for farm products. This situation is illustrated in Chart 2.

Here we have some more D.B.S. figures, using 1949 as 100, and the chart is a comparison of prices of commodities and services used by farmers and prices of agricultural products 1949-58. The two lines are quite far apart. We get to 1958, and farm prices have gone down to about 93, and commodities and services have gone up to approximately 127.

It would not be fair to state that these facts alone accurately portray the situation that inflation has imposed on agriculture. There are some alternatives available which must be followed if the farm business is to survive.

That is, by more effective combinations of resources, the farmer through greater efficiency is able to apply the same amount of inputs to a wider range of production. For example, a tractor today, though it costs considerably more than a similar unit 10 years ago, is capable of doing more work in a shorter period of time than its predecessor. The farmer is thus able to reduce man hours per acre and perhaps even apply the cost of his tractor to a larger acreage. While it is not possible to accurately measure these influences, it is obvious that they alone permit some farmers at least to remain in business when cost levels advance at a greater rate than prices for farm products for a long period of time. That is not to say, however, that this is effectively countering inflation in every case. On the contrary, the burden of inflation to the farmer is continuing to increase because of the changing organization of the farm business.

Modernization of the farm enterprise has required growing expenditures on machinery and equipment. Moreover, a trend to fewer and larger farms has taken place. According to the Gordon Commission, the number of farms in the three Prairie Provinces declined 12 per cent from 1941 to 1955, whereas farm size increased 20 per cent in the same period.

A more striking feature of changing farm organization is found in the pattern of investment. There percentage of total farm investment that is required for implements and machinery has been increasing steadily. As can be seen from Table 1, investment in farm machinery rose from 10.5 per cent to total farm investment in 1921 to 24.4 in 1951. Although these are the latest census figures available, there is more recent evidence that the trend is continuing. From surveys carried out by the Economics Division of the Department of Agriculture and reported on by Dr. B. H. Kristjanson in the "Economic Annalist" October 1957, we see that average investment in implements and machinery amounted to 26 per cent of total investment in the samples involved. At any rate, it is evident that farm operations are requiring an increasingly greater proportion of capital invested in machinery and equipment. In fact, the average farmer must keep pace with the growing requirements of the mechanized age if he is to operate a successful farm interprise.

Inflation hinders modernization of the farming business. Any process which annually increases replacement costs of necessary equipment, while unit returns for farm produce are not increasing, makes it more difficult for the average farmer to take steps to greater efficiency to overcome his handicap. Only the relatively few large farmers that have the necessary resources can easily make the transition. Furthermore, rates of increases in farm equipment prices have been much greater than the general rise of retail prices.

That is very definitely shown in chart No. 3. That is another very simple chart but it shows how much faster farm machinery prices have gone up than the retail prices of other goods. These are Dominion Bureau of Statistics figures again. It is therefore evident that one of the major expenditures a farmer must make is one which is affected more severely by inflation than many other cost elements of the economy. The growing dependence of farming on equipment and machinery has increased the burdens of inflation. Clearly, this is one of the disadvantages agriculture must face because of inflation.

The only universal hedge available to the farmer would be capital gains on land and buildings. It must be borne in mind that the farmer is not in the real estate business and is not often in a position to cash in on rising land values. Moreover, if the farmer were able to realize gains by active land trading, it is evident that this hedge is inoperative. As has been previously illustrated, capital requirements for machinery and equipment are increasing at a greater rate than values of land and buildings. In addition,

machinery and equipment are assets that depreciate rapidly rather than gaining value because of inflation. The growing requirement for expenditures on machinery and equipment, therefore, almost completely offsets any capital gain realized from increases in land values. (see Table 2). Western agriculture has no effective hedge against inflation as have others sectors of the economy.

Senator HORNER: What part of Alberta are you speaking of now?

Mr. HARROLD: These are figures for the three Prairie provinces, Manitoba, Alberta and Saskatchewan.

Senator HORNER: You mean to say that land values have dropped that much from 1929?

Mr. HARROLD: Yes, from $24 to $21.

Senator HORNER: Well, I know that in some places you have to pay $100 an acre for land. What about the district of Olds. You cannot buy land there less than $100 an acre without buildings on it.

Senator STAMBAUGH: That land must be located close to town.

Mr. HARROLD: I can give several illustrations of our own neighbourhood. We bought half a section in 1919 and paid $16,000 for it. I am sure we could not get any more than $20,000 for it after it is completely broken and in crops, and that is a good half-section of land. I can give other instances in that neighbourhood. In 1919 a quarter-section of land in my own area sold for $15,000. He could not get that for it today.

Senator HORNER: I know a district south of Regina where land was bought in 1921 for $5 an acre and there is none of it for sale at $50 an acre or better. The three-quarter section sold for $80,000 in certain areas.

Senator STAMBAUGH: I can tell about the value of C.P.R. land along the Grand Trunk Pacific Railway. It was $22 an acre when the railroad was built through there and it ran up in the early thirties higher than that, and a great deal of that land was sold for $10 an acre in recent years.

The position of the prairie Wheat producer probably illustrates more clearly the dilemma caused by inflation than does any other segment of Canadian agriculture, due to the fact that a large portion of prairie wheat is sold on export market. Ordinarily two avenues offer room for improvement to any economic group. On the one hand, the price of products or services can be bargained for—on the other hand, some influence can be exerted on the cost of raw materials and services required in production. Traditionally, the prairie farmer has been dependent on export markets for about 75% of his wheat production. With increased technology and lack of any appreciable increase in the domestic market, either for wheat or any alternate crops or products, we must rely on export markets for at least 75% of our marketings in the foreseeable future. Yet in these markets we have virtually no bargaining position pricewise. Competition in the world's markets is largely governed by the extent to which National Governments choose to subsidize wheat imports or exports in the name of human welfare, or for internal financial or political expendiency. With the elimination of opportunity for price increase, the grain producer's capacity for self protection is limited to increased efficiency and a reduction in costs.

In the post-War period the efficiency of the Canadian farmer has proceeded at a rate approximately double that of all other Canadian industry. Any acceleration of this rate could be considered unduly optimistic.

The remaining factors—namely, costs of goods and services required—are rising proportionately with the current rate of inflation in Canada, and in this we are greatly concerned. This is an area in which we believe some

determined national effort must be made. The ready capitulation by industry to labour's arbitrary wage demands, large Government deficits with corresponding increases in interest rates, protective tariffs for Canadian manufacturing, and almost unrestricted consumer credit, are fields in which we believe some attention is over due.

While it is clear that inflation presents serious problems to certain sectors of the economy, and for these reasons we believe there should be further controls, it is, however, not an easy task to define what these controls should be. Perhaps the first step could be a campaign to more actively publicize the dangers of inflation. It should be widely known that the government is interested in promoting stability in consumer prices as well as full employment. We seem to be living in an age where inflation is considered inevitable and is accepted by the general public. Obviously, people who think this way take action which helps bring about further price increases. A definite policy in which clear cut objectives of controlling inflation are widely publicized may go a long way toward tempering public opinion. Of course, the government, too, must follow moral suasion with appropriate positive action.

There are a number of well known policies that can be used to combat inflation. Among these are higher taxes, reduction of government spending, control of prices, control of credit, and removal of obstacles to higher productivity. However, there seems to be a practical limitation on implementation of some of these policies. Not all are popular with the public and there is often a great reluctance for governments to sponsor any, or all of them, except occasionally in extreme cases. Nevertheless, we should accept the fact that inflation is serious business, and for this reason some of our fiscal policies, at least, should be subject to revision and improvement. In particular, there is need for closer control and better timing of government deficit financing.

While the deficit is a useful tool for combating recession, it can add appreciably to inflationary tendencies if carried very far beyond the turning point which marks resumption of growth in business activity. It is true that governments are continually faced with legitimate needs for increased expenditures so that reduced government spending is difficult, if not impossible, in modern times. Nevertheless, there are alternatives in methods of financing this spending. The object should be to build up a surplus in prosperous times and use the deficit to stimulate business activity only when necessary. It is time fiscal policy was used as a double-edged sword—to fight inflation as well as recession.

There is also room for widening the influences of monetary policy. While the Central Bank expands credit during recessions and restricts credit during booms, there is a large segment of consumer credit that is insulated from this countercyclic policy. It is true that it becomes difficult to borrow from banks when the re-discount rate rises appreciably; it is also true that mortgage funds may become scarce. However, it rarely becomes difficult for the consumer to buy on the installment plan at the local department store. Since consumer credit enables buyers to increase expenditures beyond current incomes, large scale credit expansion can be inflationary. We feel that under certain times and conditions more effective control should be placed on instalment credit for consumer goods.

Finally, to be successful in combating inflation, we must eliminate the annual cost-price increases created mainly by labor on the one hand and on the other by industries which, because of concentration, have power to administer prices. Clearly the process of labor obtaining increased wages on the basis of rising living costs, which in turn have been created to some extent by previous wage increases, can be a never-ending dilemna. This wage-price

spiral is definitely a feature of current inflationary problems. Some restraint, we feel, could be exercised through a careful review of existing tariffs. A reduction of tariff protection for Canadian manufacturing industry may have a double-barrelled effect of creating abroad increases purchasing power for Canada's exports, while stimulating more competition in Canadian industry and greater efficiency of industrial labour.

By way of remedy it has also been suggested that a third party, the consumer, should be invited to the bargaining table with labour an management. The objective should be to secure for the consumer part of the gains from productivity by way of reduced prices. This would have the desirable effect of increasing purchasing power without producing inflationary tendencies. While we would prefer that labour and management voluntarily co-operate to bring about these adjustments, they have, to date, shown little inclination to do so. Any progress in this direction will likely come about through definite policies instituted by Government.

In summary, may we re-state we are greatly concerned over the effects of inflation on agriculture. The particular segment which we represent, due to uncontrollable circumstances, probably bears the brunt of the inflationary tendencies apparent in the Canadian economy.

We appreciate the opportunity to make this submission, and for your consideration we suggest:—

(1) more National recognition of the dangers of inflation;

(2) closer control and better timing of Government deficit financing;

(3) greater control of consumer credit;

(4) more effective use of anti-combines legislation to prevent price setting in certain industries; and

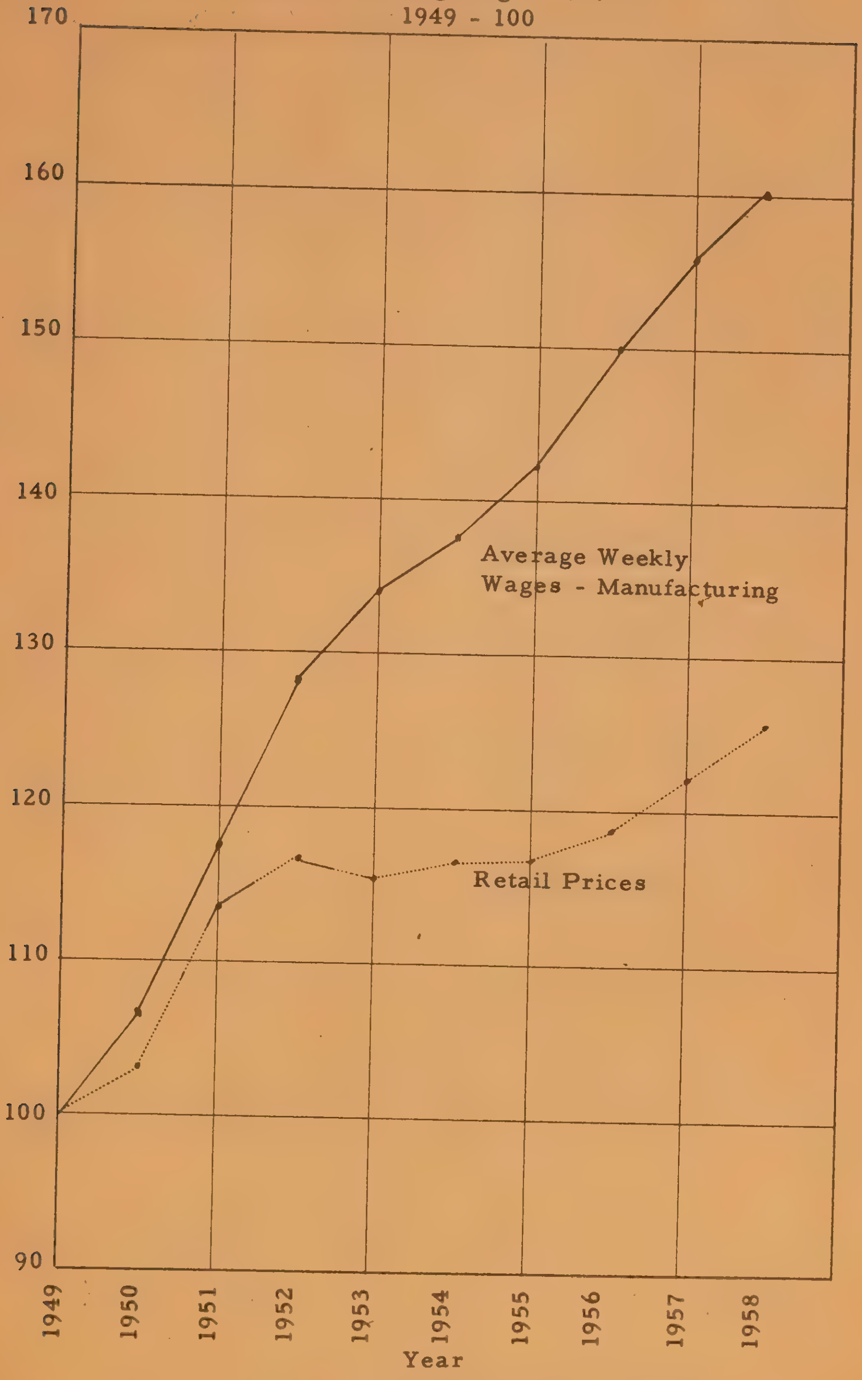
(5) the possibility of reduced tariffs for manufacturing industries.

The above suggestions are not new nor original. What is required, however, is co-operation and courage to use more fully the known tools at our disposal. As the case in combating recession, the tools were available long before public acceptance put them to use. We have reached a stage in economic evolution when we should extend countercyclic policy to control inflation as well as recession.

Respectfully submitted, ALBERTA WHEAT POOL
(G. L. Harrold, President).

CHART 1

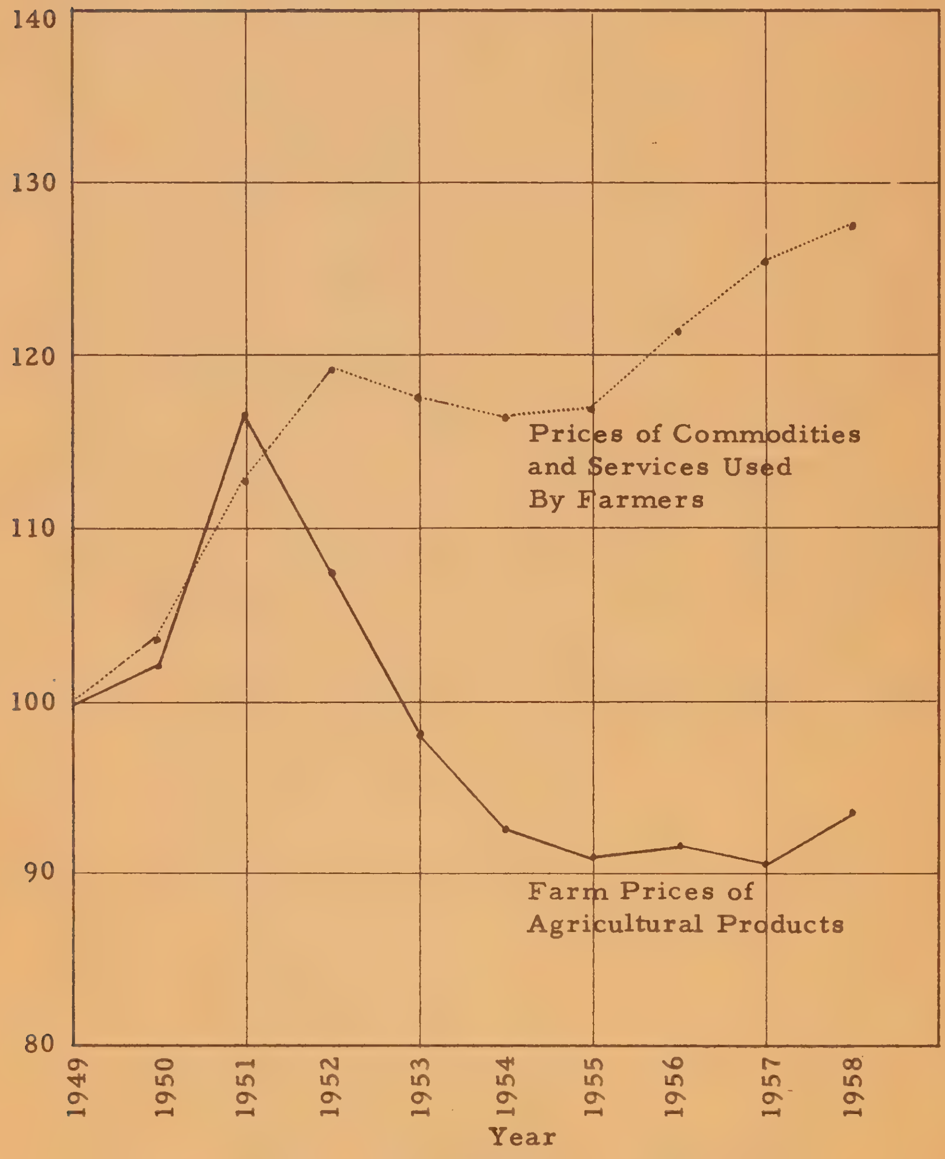
Comparison of Changes in Retail Prices and Manufacturing Wages 1949-58
1949 - 100



Source: Dominion Bureau of Statistics

CHART 2

Comparison of Prices of Commodities and Services Used By Farmers and Prices of Agricultural Products 1949-58
1949 - 100

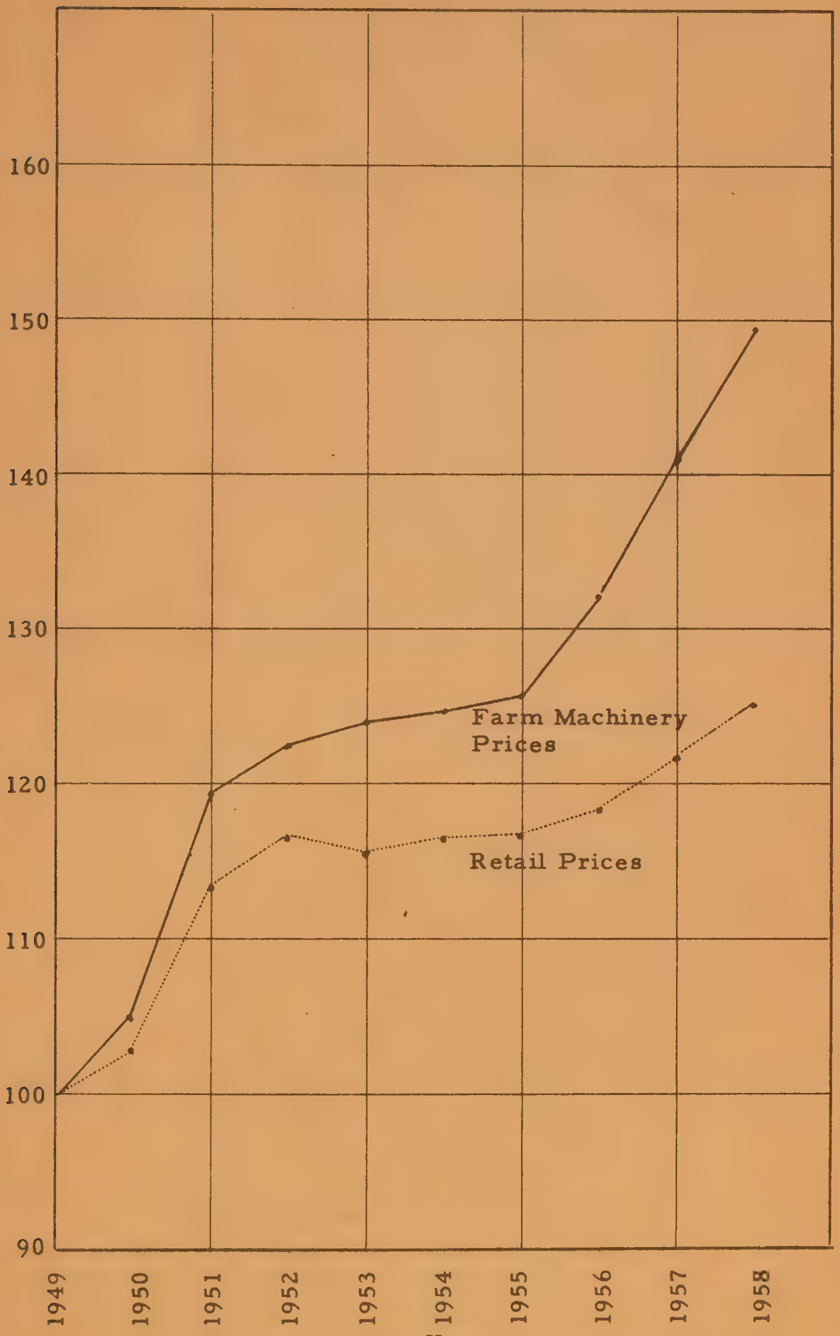


Source: Dominion Bureau of Statistics

CHART 3

Indexes of Farm Machinery and Retail Prices 1949 - 58

1949 - 100



Source: Dominion Bureau of Statistics

TABLE 1

Changes in Land, Machinery and Livestock Investment in Canada and the Prairie Region, 1921–51

	Land and Buildings	Implements and Machinery	Livestock and Poultry	Total
		— percent —		
Canada:				
1921	77.1	10.1	12.8	100
1931	77.2	12.4	10.4	100
1941	71.4	14.1	14.5	100
1951	58.4	20.4	21.2	100
Prairie Region:				
1921	76.9	10.5	12.6	100
1931	77.0	14.1	8.9	100
1941	70.8	16.3	12.9	100
1951	58.1	24.4	17.5	100

Source: B. H. Kristjanson, The Capital Structure of Canadian Agriculture, *The Economic Annalist*, June 1957, p. 58.

TABLE 2

Value of Land and Buildings Compared to Value of Implements and Machinery, Average Per Acre, Prairie Region, 1921–51

	Implements and Machinery	Land and Buildings
	— dollars —	
1921	4.0	29.0
1931	3.3	18.0
1941	2.6	12.0
1951	10.3	24.0

Source: W. M. Drummond and W. Mackenzie, *Progress and Prospects of Canadian Agriculture*, Royal Commission on Canada's Economic Prospects, Jan. 1957, p. 397.

The Chairman: Thank you Mr. Harrold. That is a very good brief, and ably presented.

Senator Haig: I have one question to ask, Mr. Chairman. This brief deals mostly with grain production. While I am not an authority in this field, I am told that the cattle sales in Western Canada last year was as large or larger than any we have had in our history.

Mr. Harrold: That is probably true, yes.

Senator Haig: And I am told it was a very profitable year for cattle raisers.

Mr. Harrold: Well, I would not attempt to speak for the cattle raisers. I am here to speak mainly from the point of view of the grain producers. However, I believe, generally speaking, as far as the cattle people are concerned, they are in relatively good circumstances compared with some segments of the economy in the west.

Senator **Haig**: I was told that the general prosperity of the three western provinces came about largely from the sale of cattle, especially in the United States.

Mr. **Harrold**: Most of the increase in farm income in the west is attributable to good cattle prices.

Senator **Burchill**: You mention somewhere in your brief, and stress the point, that inflation is a deterrent on the efficiency of the farmer—the fact that he is obliged to pay more for his machinery and that sort of thing cripples his efficiency.

Mr. **Harrold**: Yes, I would say so.

Senator **Burchill**: What about the other side of the picture, the fact that there is inflation obliges him to adopt more efficient methods in order to live? If there wasn't any inflation in the economy, and things went along quite smoothly, would he be spurred into using more efficient methods?

Mr. **Harrold**: We make the statement at the top of page 7 of the brief that agricultural efficiency has increased at double the rate of any other Canadian industry since 1947.

Senator **Burchill**: Inflation had something to do with that—that is my point?

Mr. **Harrold**: Possibly it had something to do with it. But it is reasonable to expect that agriculture should have to increase its efficiency at a greater rate than any other industry in order to survive?

Senator **Burchill**: You have not mentioned that feature at all, and I think it is common to our economy, because of all other industries have been obliged to become more efficient by reason of an inflationary tendency.

Mr. **Harrold**: I agree with that, but why should agriculture as an industry have to increase faster than any other industry? Is it not doing its part as far as efficiency is concerned?

Senator **Burchill**: I wonder what the measuring rod is.

Mr. **Harrold**: I agree it is difficult to determine.

Senator **Haig**: I don't agree with that last statement. I think the farmers are more efficient than they have ever been.

Senator **Burchill**: I don't quarrel with that. My point is, has their efficiency increased more than any other industry? What is the measuring rod which is the basis for making such a statement?

Mr. **Harrold**: This is a statement made by Dr. J. J. Deutsch some time ago. He was head of the political economy department of the University of British Columbia, and I understand has since moved to Queen's University. He made that statement, and I believe it has not been challenged. He got together figures which proved the point to his own satisfaction, and made the statement that agriculture efficiency had increased twice as fast as other industries over the period from 1947 to 1957.

Senator **Horner**: In some cases it has been high pressure selling.

Senator **Burchill**: We have Dr. Deutsch here now, and we can tackle him on that point.

Senator **Lambert**: The witness' brief is a very interesting one, from the point of view of its application to the threat of inflation. I would like to ask him if he does not think that completion is a factor in meeting inflation, especially on an international basis, with wider distribution of goods, and more competition between different countries in relation to price levels.

Mr. **Harrold**: I would say you have to use the word "pure" competition.

Senator LAMBERT: I don't care what adjective you put before it; it means free competition.

Mr. HARROLD: Right. But whenever you circumscribe it by subsidies or tariffs it ceases to be free competition.

Senator LAMBERT: Those things interfere with the economy?

Mr. HARROLD: That is right.

Senator LAMBERT: I agree. But speaking from the western point of view, which you have been emphasizing, the real problem seems to me to have been lack of markets.

Mr. HARROLD: And lack of markets is due to a number of things.

Senator LAMBERT: The watch word in western Canada used to be: let us sell anywhere and buy anywhere, and we will be all right. Do they still support that view?

Mr. HARROLD: I don't think it has changed in this brief in any shape or form.

Senator LAMBERT: There is a different orientation entirely since 1930, I would say.

Senator HORNER: I notice you recommend the curtailment of credit intalment buying.

Mr. HARROLD: That is right, under certain conditions.

Senator HORNER: You know it is very rigid in the purchase of farm machinery. Do you recommend that?

Mr. HARROLD: When we use the term "consumer credit" we are thinking more of instalment buying. I agree that those things that are used for farm production should not have the same curtailment on instalment buying as those things which have a specific use today but which are being paid for tomorrow—I am thinking of a vacation on a pay-later plan. That is, entirely different from getting credit for something that is going to be used for production purposes, for the next twenty years or by the next generation.

Senator HORNER: You must have noticed a lot of farmers buying more machinery than they need?

Mr. HARROLD: Well, that is a matter of opinion. I agree there are some farmers who have more machinery than they should have, but if I took you to my farm, I do not think you would say I have more machinery than I should have.

Senator HAIG: Mr. Harrold, when I came down here in 1935 from the West what was the price of wheat f.o.b. Fort William?

Mr. HARROLD: It would be in the neighbourhood of 60 some cents.

Senator HAIG: Yes, that is correct. And now it is what at Fort William?

Mr. HARROLD: $1.60.

Senator HAIG: You did not mention that. Money has not depreciated in value that much?

Mr. HARROLD: But do you suggest that in the 30's people were getting by on that price of wheat?

Senator HAIG: You grow wheat and then you sell it, and you have sold it in my day, when I came here, at 60 cents a bushel. That was about the price. Today you are selling the same wheat at $1.60.

Mr. HARROLD: And 15 years before that we were selling it at $2.50 a bushel.

Senator HAIG: That was just before the war.

Mr. HARROLD: No. We can go back to the 20's instead of the 30's.

Senator GOLDING: The cost of everything you buy now has doubled, or more than doubled—that is, for equipment and everything else? Is not that right?

Mr. HARROLD: Yes.

Senator GOLDING: So how much would your bushel of wheat buy then as compared with now?

Mr. HARROLD: We can take a 12 year period. To buy a combine today takes 2½ carloads of wheat, whereas as 12 years ago it took 1 carload.

Senator GOLDING: Yes, that is the point.

Senator HORNER: I would like to say another word in regard to the price of land. Everyone who has had experience in western Canada with railway lands will know that the price varied very greatly. Some C.N.R. land sold for $50 an acre, and some for $5 an acre—I must say that they did not all get good land, and any land that is available now is only fit for pasture.

Senator STAMBAUGH: I am talking about the land that was taken back and resold.

Senator HORNER: I am talking about the depreciation of farms. Because of the 5 day week and high wages the industry just cannot keep the young people on the farm. I can tell you that.

The CHAIRMAN: The next witness, honourable senators, is Mr. Charles W. Gibbings, the Second Vice-President of the Saskatchewan Wheat Pool.

Senator HAIG: I think you will have to adjourn this until tomorrow morning. The Senate meets at 3 o'clock.

The CHAIRMAN: If it is agreeable I will adjourn the meeting until 10 o'clock tomorrow morning.

THE SENATE

STANDING COMMITTEE ON FINANCE

OTTAWA, Wednesday, July 1, 1959

EVIDENCE

The Standing Committee on Finance, which was instructed to study the threat of inflation in Canada, met this day at 10 a.m.

Senator Clarence V. Emerson in the Chair.

The CHAIRMAN: Honourable senators, I see a quorum, and the hour has arrived. We have with us this morning Mr. C. W. Gibbings, Second Vice-President of the Saskatchewan Wheat Pool. We are sorry, Mr. Gibbings, that we could not hear you yesterday.

Senator ASELTINE: I would like to say that Mr. Gibbings is a Rosetown boy. He was a successful farmer and Mr. Gibbings still farms there, even though he is the Second Vice-President of the Saskatchewan Wheat Pool. I am very much pleased to introduce him to this committee this morning.

Mr. Charles W. Gibbings, Second Vice-President, Saskatchewan Wheat Pool: Mr. Chairman and honourable senators, before presenting the brief itself I might say that you will notice, if you read it, that we have made no attempt to discuss the causes of inflation, nor have we made any broad recommendations as to the policies that might be followed to cure inflation. Instead, we have dealt with the effects, particularly with respect to the inequities which exist in the present inflationary situation. In taking this position we have acted realistically on the assumption that you have had experienced witnesses in these fields before you, and that any judgments we might make in this regard would be both inexpert as repetitious. The Saskatchewan Wheat Pool welcomes this opportunity to appear before the Senate Committee on Finance. The problem under study represents one of the most serious threats facing the Canadian economy at the present time. Although most industrial groups appear to have been able to make the adjustments necessary to keep pace with the erosion of inflation so far, this is not the case in the farm industry. In the post-war years, rising costs have become a serious problem for farm people. Consequently, as representatives of farm people we welcome the invitation to appear before your Committee to outline some of the problems encountered by farmers as a result of the inflationary trend, and some of the proposals we consider are necessary as a result.

Interest of the Saskatchewan Wheat Pool

As a member-organization of the Canadian Federation of Agriculture, we wish to associate ourselves with the presentation of that organization at an earlier session of your Committee. Our intention is to enlarge on those aspects of the Federation brief which affect farmers of Western Canada, and more particularly the grain producers. Perhaps before proceeding, a brief description of our organization would provide a better understanding of our concern about the problem of inflation.

The Saskatchewan Wheat Pool is a co-operative organization which handles and markets grain and livestock for its members. The membership of the organization comprises approximately 85,000 farmers who are actively using its marketing facilities. The Saskatchewan Wheat Pool owns and

operates more than 1,100 country elevators (one at almost every shipping point), providing country handling facilities for approximately 83 million bushels of grain. The organization handles between 45 and 50 per cent of all grain delivered in Saskatchewan. It operates four terminals at Fort William/ Port Arthur, with capacity of 28.5 million bushels, or about 30 per cent of the total capacity at the Lakehead. It also operates a small terminal at Vancouver.

The Pool has a livestock marketing organization, with agencies at seven centres in the province handling 40 to 45 per cent of the provincial marketings of cattle, calves, hogs, hogs and sheep.

Its industrial division at Saskatoon includes a flour mill and vegetable oil plant, a large printing and publishing plant, and a weekly farm newspaper.

The Wheat Pool is governed by the farmers who own it. For administration purposes the province is divided into 16 districts, each of which is subdivided into 10 or 11 sub-districts, giving 167 sub-districts in all. Each year the shareholders in each sub-district elect by balot a delegate to represent them at annual and other meetings of the organization. The assembled delegates at annual meetings establish the policy of the organization.

The link between the delegate and the farm people is provided in each community by a wheat Pool committee, elected annually from the shareholders in the community. This makes it possible for the local delegates and directors to maintain close contact with the views and opinions of the Pool shareholders.

We have outlined the organizational set-up of the Wheat Pool in some detail so that members of the committee will be aware of the close association between our central office and executive, and the farmer-owners. Consequently, we feel we are in a good position to express the views of the farm people on the inflation question, and comment on its effect on the farm industry.

Inequities of Inflation

It is our understanding that a number of highly-qualified specialists in matters of economics and finance have appeared before your Committee to discuss the subject of inflation in its broad application. The major point we wish to emphasize is that, regardless of what its influence may be in the internal domestic Canadian scene, there are particular groups in the economy who suffer during inflationary periods because they have no means by which to adjust to its pressures. Possibly the most widely recognized inequity resulting from inflation involves the large fixed income group-persons drawing fixed pensions, and others attempting to live on income from government bonds and like securities.

Another group which feels the effect of inflation adversely include industries which must export a major portion of their production. This is true particularly when the degree of inflation in Canada exceeds that of its competitors in the export market.

Many primary producers, who because of the nature of their production are unable to adjust their prices in relation to the inflationary trend, also find themselves in difficulty.

Farm producers, particularly those who must depend on the export market, are an important part of this latter group. In many cases their incomes are derived from the "residual" share of the consumer's dollar—the share that is left after the processors and distributors have taken their margins. As these margins increase to meet rising costs under inflationary conditions, the "residual" share remaining for the primary produced diminishes.

Domestic industry has the power to pass along its rising costs due to inflation in the form of increased prices. The labour community has bargaining authority and can maintain its position during an inflationary period through wage increases. Those who suffer from inflation are the people who have insufficient bargaining power of their own—who must export the commodities they produce in a price-competitive market—or the primary production group. Consequently, this group must look to government action to offset the adverse effects of inflation, which it is powerless to meet by its own efforts. This means simply that it is a government responsibility to see that this group receives equitable treatment, either through policies which will curb inflation, or other compensatory means to meet the inflationary force.

Position of the Grain Producer

Historically, during periods of inflation and high economic activty, the farmer enjoyed increased net revenue. For a number of reasons, however, the historical pattern has not developed during the current inflationary period. Instead, while costs of farm "inputs" have risen steadily since the last war, the wheat producer's price has declined. The position is shown clearly in the following table:

INDEXES

GENERAL WHOLESALE PRICES, FARM COSTS, AND WHEAT PRICES

1935–39 = 100

Year	Wholesale Prices	% of 1947	Western Canada Farm Costs	% of 1947	Sask. Farm Wheat Prices	% of 1947
1947	163.3	100	166.0		$1.63	
1948	193.4	118.4	190.2	114.6	1.63	100
1949	198.3	121.4	199.2	120.0	1.61	98.8
1950	211.2	129.3	207.0	124.7	1.49	91.5
1951	240.2	147.0	225.5	135.8	1.52	93.3
1952	226.0	138.3	238.6	143.7	1.59	97.6
1953	220.7	135.1	237.3	143.0	1.33	81.7
1954	217.0	132.8	235.7	142.0	1.21	74.3
1955	218.9	133.9	234.7	141.4	1.38	84.7
1956	225.6	138.1	243.3	146.6	1.24	76.1
1957	227.4	139.2	251.0	151.2	1.29	79.2
1958	227.8	139.4	257.5	155.1		

SOURCE: Calculated from D.B.S.—Prices & Price Indexes.
D.B.S.—Revised Estimates of Production, Value and Stocks of Principal Field Crops.

It will be noted that while the index of wholesale prices in Canada has risen by 39.4 per cent since 1947, and the costs of goods and services used by farmers (Western Canada) has risen by 55.1 per cent, the farm price of wheat has declined by 21 per cent. Thus, while a high level of activity is maintaining inflationary pressure on the general economy, the aggravation of surpluses and the effect of nationalistic wheat policies in other countries is creating a difficult squeeze for the Canadian grain producer. The problem created by subsidized wheat competition exerted by other countries will be dealth with later. Here we wish to emphasize, however, that while these unrealistic foreign wheat policies are maintained, the rise of production costs due to inflation in Canada is resulting in a steady decline in the net income of the grain producer.

The Wheat Grower in the Domestic Economy

We appreciate the difficulty in arriving at a solution to the problem of stabilizing the purchasing power of the Canadian dollar and eliminating inflation. It is apparent, too, from the wealth of material published recently on this subject, that even the experts in monetary policy matters have been unable to reach agreement on the most desirable course of action. We hope that through the efforts of your Committee this objective will be achieved.

To the extent that inflation continues, however, there is a public responsibility to compensate the fixed income group and others who, through no fault of their own, are being hurt by this development.

This is particularly true, we feel, in the case of the wheat industry, as it serves consumers in Canada. Approximately 50 million bushels of wheat are used for domestic human consumption in Canada each year. This is sold to mills and manufacturers at the depressed export price level, in spite of rising production costs and general higher living standards in Canada.

The absurdity of the situation is indicated in the following table, showing changes in the price levels of wheat and bread during the past ten years:

	WHEAT		BREAD	
Year	Price ($ per bus.)	% of 1947	Price (c. per lb.)	% of 1947
1947	1.63		7.1	
1948	1.63	100	9.1	128.2
1949	1.61	98.8	9.9	139.4
1950	1.49	91.5	10.6	149.3
1951	1.52	93.3	11.7	164.8
1952	1.59	97.6	12.0	169.0
1953	1.33	81.7	12.3	173.2
1954	1.21	74.3	12.8	180.3
1955	1.38	84.7	12.8	180.3
1956	1.24	76.1	13.3	187.3
1957	1.29	79.2	14.3	201.4
1958			14.8	208.5

SOURCE: Revised Estimates of Production, Value and Stocks of Principal Field Crops. Canada Year Book, Prices and Price Indexes, D.B.S.

The table indicates that while wheat prices have declined 21 per cent in the post-war period, the price of bread has risen by 108.5 per cent. We are not suggesting here that the price of bread is too high. This should be made perfectly clear. The price of bread has simply followed the same trend as practically all other manufactured or processed products in Canada. Despite the application of new technology, and the improvement of production line techniques, price levels in almost all industries have climped steadily upwards in response to the inflationary trend.

What we do suggest is that a price increase of 108.5 per cent has been effected in a product which has wheat as its basic constituent, yet the price of wheat has shown an actual decline. We suggest that, as one means of offsetting the effects of inflation for the wheat producer, the Canadian Wheat Board should be authorized to establish a formula price for wheat sales for domestic human consumption in line with general price levels in Canada. For example, a price increase of 1½ cents per pound of bread would return approximately $50,000,000 additional funds to the Wheat Board pool, and this spread over the total farm wheat deliveries would increase the price by about 14 cents per bushel.

The Canadian public has accepted rising costs of bread during the past ten years without question, recognizing the inevitability of rising costs in an inflationary period. We submit that the Canadian public would be quite prepared to pay the additional cost for their bread that would be necessary to maintain the farmer's price level in a fair relationship with general prices in Canada.

Inflation and Agricultural Export Trade:

Canada's rapid development as a nation has resulted from her export trade. Today Canada ranks fourth among the nations of the world in dollar trade volume, accounting for about six per cent of the total. Canada leads all other nations in trade volume per capita, with a total of more than $700 annually per person.

Since the early days of settlement, Canada's agricultural industry has provided an important part of the trade volume. This has decreased slightly in recent years, on a percentage basis, because of the rapid progress of industrial trade development. But in dollar terms, agriculture remains the mainstay of the export industries. The following table presents the story:

CANADIAN EXPORT TRADE

(million dollars—U.S.)

Year	Agricultural and Fishery Products	Forest Products	Other Products	Total	Agricultural Exports at % of Total
1953	1,361.4	656.4	2,225.7	4,243.5	32.1
1954	1,089.8	730.5	2,234.6	4,054.9	26.9
1955	1,033.8	827.6	2,561.3	4,422.7	23.4
1956	1,242.0	772.0	2,932.1	4,946.1	25.1
1957	1,171.5	719.0	3,258.7	5,149.2	22.7

SOURCE: FAO Trade Year Book, 1957 and 1958.

The table indicates that agriculture and fisheries together contribute about 25 per cent of the Canadian export volume (fisheries account for about $125 million per year). It is unnecessary in a presentation before this Committee to spend any time in emphasizing the importance of agricultural export trade to the welfare of Canadian people. The significance of this tremendous volume of international business is clearly understood by members of the Committee. However, in this day of industrial boom and spectacular business development, it may be that many Canadians have lost sight of the significance of agricultural exports and the contribution they make to the wealth of the nation. Consequently, the public should be made aware of the important influences which threaten to undermine the agricultural export trade.

The problems on inflation pose great dangers for all exporters. The wheat producer is in a doubly vulnerable position today, as he is victimized by the twin pressures of rising inflationary costs at home and subsidized competition abroad. While he might be able to weather through the economic adjustments required by one or the other of these pressures, he has encountered serious trouble in trying to adjust to both. Because of the importance of the export wheat trade to the entire nation, and the influence of inflation on this trade, we believe it would be useful to review some of the competitive elements in the international wheat scene.

U.S. Wheat Policy:

The United States has maintained support price legislation since the 1930's. Not until after the second world war, however, did it become significant for Canadian agriculture. During the reconstruction period many countries faced virtual starvation, and the stimulus of the great need for food encouraged a massive increase in wheat production in United States. When the emergency period ended, United States had become a major exporter. In the crop year 1956-57, United States exports amounted to 539 million bushels, 53 per cent of the total exports of the "Big Four" and more than the total exports of that country during the entire ten-year period from 1930 to 1940. The combined stimulation of post-war food policies and improved crop technology have created the much-publicized United States wheat surplus. In an effort to continue an active foreign aid program and at the same time get rid of the wheat surplus, the United States has in the past four years exported a total of 948 million bushels under various assistance programs. I might say this does not include the crop year that ended yesterday in the United States. We did not have the complete figures and consequently did not include them.

During the same perid, commercial sales of that country for dollars have amounted to only 545 million bushels.

The various export assistance programs used have been as follows:

	million bushels
Sales for local currencies	661
Barter arrangements	207
Donations direct to foreign governments for famine relief	50
Donations to private relief and charitable organizatins	30
Total	948

According to a study by Helen C. Farnsworth of the Food Research Institute, Stanford University, the average effective export subsidy in the 1956-57 crop year amounted to more than $1.00 per bushel on every bushel of wheat leaving United States shores. (Multiple Pricing of American Wheat —Research Institute, Stanford University, 1958.)

This United States wheat program, although helpful to grain producers in that country and also to the recipient nations, has definitely infringed upon normal Canadian markets. Canadian farmers have never objected to the United States operations of providing food for famine and other relief programs, but the other disposal operations involving sales for local currencies and barter arrangements have placed the Canadian farmer in a position where he is competing with the government of United States rather than with the wheat producers of that country. To the extent that inflation has increased Canadian whea producers' operating costs during this period, this has created a further handicap in meeting the U.S. competition.

U.S. Flour Export Subsidy:

Associated with the United States wheat subsidy program, additional subsidies were made available to mills in that country to give them a competitive advantage in the export market. This resulted in an immediate loss of business to Canadian mills (which they have not regained) to the extent that about two years ago, the Canadian Wheat Board was authorized to sell wheat to Canadian mills at less than market price in order that they might compete in certain

export markets. This reduction in price, ranging up to 16 cents per bushel at present, is borne directly by the Canadian wheat producer. While the farmer recognizes that it is in his interest to sell as much Canadian flour as possible, he feels that it should not be his burden alone to meet the competition of a United States subsidy to the milling industry.

Wheat Policies in Importing Countries:

Almost every importing country in the world pays domestic producers excessively high prices to grow wheat—often uneconomically—while at the same time imports of lower-priced Canadian wheat are subject to certain measures of control. Thus the Canadian producer finds himself in the ridiculous position of growing the best quality wheat in the world and at the same time receiving the world's lowest price. Our Saskatchewan farm price for wheat in 1957-58 amounted to $1.29 per bushel. This is in sharp contrast to the following list of countries, most of which are currently good customers for Canadian wheat.

PRODUCER PRICES FOR WHEAT IN SELECTED COUNTRIES
1958–59

	$ per bus.		$ per bus.
Switzerland	4.15	Belgium	2.48
Finland	3.78	Ireland	2.13
Norway	3.31	South Africa	2.18
Italy	2.93	United Kingdom	2.03
Germany	2.78	Netherlands	2.01
Japan	2.67		

SOURCE: Selected from a list contained in "Wheat, A Commodity Policy Review" by Frank Shefrin—Agriculture Abroad, Dept. of Agriculture, Ottawa, February, 1959.

In addition to providing high domestic supports, most importing countries also control the flow of imported wheat through import licences, exchange controls, import quotas, and milling quotas which require a specific percentage of domestic grain to be used in the grist. All of these actions involving artificial price supports and import restrictions are efforts by foreign countries to protect their primary food producers from the impact of inflation. The Canadian farmer feels that he has a right to expect assistance in meeting uncontrolled rising costs at home when facing this kind of difficult government-supported export competition abroad.

Canadian Dollar Premium

The present strength of the Canadian dollar is another direct disadvantage standing in the way of Canadian exporters. At present the Canadian wheat producer's price is being cut by approximately 4½ per cent because of the difference in exchange rates between Canadian and United States dollars. This is a direct result of present financial policies and is so closely related to the whole problem of inflation. The effect of the present exchange difference amounts to a reduction of approximately eight cents per bushel in the price received by the wheat producer.

Canadian Tariff Policy

One of the major dangers of inflation is that Canadian industry will price itself out of exports as well as domestic markets. As our domestic costs rise higher and higher, it becomes more and more difficult to meet export competition. At the same time, foreign producers find a more attractive market for their products in Canada. This results in stimulated demands by Canadian industry for additional tariff protection.

High tariffs affect wheat producers detrimentally in two ways. First they result in higher costs for the goods and services they require. Members of the Committee will recall, in this connection, the estimate made by the Gordon Commission on Canada's Economic Prospects, that in 1956 tariffs cost the people of Canada approximately $3\frac{1}{2}$ per cent of the Gross National Product, amounting to a total of more than $1 billion. Secondly, as the tariff wall reduces the inflow of goods from foreign countries, who are importers of Canadian wheat, the balance of payments is adversely affected, in many cases forcing the importer to look elsewhere for a supply of cereal products outside the dollar area. This automatically reduces the market for Canadian wheat.

Conclusions:

(a) The farm industry represents a major source of wealth to Canada, contributing essential food and fibre for the domestic market. Together with the fisheries industry, products of the farm contribute one-quarter of Canada's total dollar export volume. The farm industry is important, not only to farmers themselves, but to the thousands of Canadian wage-earners who are employed in agricultural trade and service industries.

(b) Farmers are particularly vulnerable to the pressures of inflation because they are unable to pass their increased costs along to someone else. Consequently, they receive only the "residual" share of the market price. This means that as inflation pushes costs higher, farm income falls.

(c) The aggressive wheat disposal policies of the United States, and protectionist policies in importing countries, pose a serious competitive problem for Canadian wheat producers. This problem is aggravated by inflationary forces which result in increased production costs.

(d) As inflation pushes domestic costs up, Canadian industry is gradually forced to price itself out of export and domestic markets. This creates pressure for increased tariffs which, in turn, cut down Canada's international trade. This has a detrimental effect on the volume of agricultural exports, as well as those of other industries.

Policies to Combat Results of Inflation

We regret that we are not in a position to offer your Committee a patent solution which can be used to stabilize the purchasing power of the Canadian dollar, while at the same time permitting the unhampered growth of Canadian development. We feel, however, that inflation is already causing serious problems for the farm industry. We are concerned also with the existence of danger signals indicating some loss of public confidence in the value of the Canadian dollar. The inflationary trend is hurting the fixed income group, and those people who are least able to protect themselves.

Our major concern is for the farm industry, and particularly for the grain producers of Western Canada. The Government, too, has recognized that a serious problem exists and has instituted certain measures, including storage

payments assistance, and an acreage bonus payment last year, which were designed to meet the situation. These measures are appreciated by the farmers of Western Canada, but we submit that, until the inflationary cost increases and other problems facing this group are solved, certain other policies are necessary to prevent the occurrence of more drastic difficulties:—

1. Continuation and extension of the wheat surplus disposal policies undertaken by the Federal Government, which in 1957-58 resulted in the export of some 30 million additional bushels of Canadian wheat.

2. A two-price system to permit the sale of domestic wheat at prices in fair relationship with the general level of prices in the Canadian economy.

3. Assumption by the Federal Government of costs incurred in subsidizing flour mills for export sales in competition with United States mills.

4. An adjustment payment by the Federal Government to compensate for the loss incurred by wheat producers because of the Canadian dollar premium.

We have attempted to show why special policies are required by the agricultural industry to offset the effect of inflation and other problems. Because of the inequities that have existed in recent years, Western farmers found it necessary last March to send a large delegation to Ottawa, requesting that a deficiency payments policy be instituted in respect of this period. To the extent that present measures and the implementation of the above four policies would alleviate the situation, the need for deficiency payments in future would be reduced.

It is impossible to assess what the impact of inflation has been on the agricultural industry, but to the extent that costs have risen without a corresponding rise in farm commodity prices, farm people have suffered. Until the necessary adjustments have been made through a reduction of costs, or an increase in farm prices, this will remain the most serious problem facing the farm community.

The CHAIRMAN: Mr. Gibbings, on behalf of the honourable senators present, I want to thank you for presenting such an excellent brief. As I said in my earlier remarks, I am sorry we had to detain you for this morning. The meeting is now thrown open for any senators who have questions to ask.

Senator HIGGINS: On page 12, Mr. Gibbings, under the heading, “Producer Prices for Wheat in Selected Countries, 1958-59”, can you say why the price is so high in Switzerland, and why it is so low in the Netherlands?

Mr. GIBBINGS: The prices have been adopted by the individual countries, and why they have adopted them at these levels, I am not able to say; but these are the prices that are paid to the farmer on the farm.

Senator HIGGINS: You mean that for the wheat produced in Switzerland, they got $4.15 for it?

Mr. GIBBINGS: That is right.

Senator STAMBAUGH: On the same page you mention $1.29 per bushel as the farm price for wheat in Saskatchewan in 1957-58. Is that at the elevator?

Mr. GIBBINGS: Yes, this is the average price received at the local country elevator for an average grade.

Senator STAMBAUGH: The average price for all grades?

Mr. GIBBINGS: That is right.

Senator ASELTINE: We do not get No. 1 for our wheat any more; in fact, we have great difficulty in getting No. 2 sometimes. I do not know the reason why we have to sell wheat, Mr. Gibbings, that weighs 65 and 66 lbs. to the bushel as No. 1. Can you give us any explanation of that?

Senator BRUNT: That is a local problem.

Mr. GIBBINGS: The grade standards are established, as you know; and all grain is graded by the representatives of the Board of Grain Commissioners. However, grain is degraded because of a number of factors, and any grain that weighs 65 lbs. per bushel and does not grade 1 or 2 has certain defects in it that causes it to be degraded; it may be frost, or immature kernels; but these price differentials are established on the basis of the milling quality of each of the grades, and it makes it profitable for millers at times to purchase one grade rather than the other, but the price differential between grades is determined by the quality and volume of flour that can be manufactured from these grains.

With respect to your prior statement that we do not receive grades Nos. 1 and 2 any more, I submit that the reason for this is not because grades have changed but because farming practices have changed. I say this because the new machines that we have may not always plant the seed as uniformly as when we used the drill, now that we are using discers and so forth. Secondly, with the type of harvesting that we have at this stage farmers are tempted not to by-pass the green spots in the fields as they used to when they cut with binders and rather than go around them go through, and the result is that you get immature kernels, you get second growth, and the result of all this is that you get uneven samples with some of the degrading characteristics in the grain that I referred to earlier.

Senator HORNER: Do you not think that all this is due to an abundance of wheat? Do you not think it would be different if the grain was in short supply, but with an abundance we have the conditions that you are speaking about?

Mr. GIBBINGS: Senator Horner, I have had many discussions with the chief grader of the Board of Grain Commissioners who will not admit at any time that standards have been changed. We have the grain standards committee who, as you know, establish the grain standards for each crop, and my belief is that because of the characteristics of each, that you find degrading factors in one crop you do not find in another. But if we had the same type of grain now as we marketed in years when we used to get No. 1 and No. 2, we would find a much higher percentage would be No. 1 and No. 2.

Senator BRUNT: Do you not think a full elevator affects the grade?

Mr. GIBBINGS: The final grade is determined by the Board of Grain Commissioners and there have been occasions when farmers have been prepared to accept a lower grade than their grain would otherwise give due to the fact that the elevator would have room only for that particular grade, but the farmer is not forced in any way to do this and if he is not satisfied with the grade that the elevator agent prescribes then he has the right to send a sample to the chief inspector of the Board of Grain Commissioners and the elevator operator is then bound to give him that grade or a better one if he is going to take it in.

Senator CROLL: Mr. Gibbings, will you look on page 13 of your brief please. There you speak of the Canadian dollar premium. Now, we all agree that the Canadian dollar premium is a handicap to exporters. What you say is this: "This is a direct result of present financial policy and is closely related to the whole problem of inflation." My understanding is that the Canadian dollar premium is due in the main to the brick and mortar and investment money that is coming in from other countries and about which this Government can do nothing and should do nothing.

Now, what did you have in mind when you were speaking of it?

Mr. Gibbings: We are here simply attempting to state a position; we were not making any judgment.

Senator Croll: Nothing in your mind outside of that?

Mr. Gibbings: No. Certainly that is the way we have it analysed. It is the importation of foreign currency for investment purposes within Canada, as well as the fact that municipalities and some Governments go outside of Canada to borrow money, and in so doing it must be converted to Canadian dollars which results in an increased demand for Canadian dollars which causes the premium. This is simply the position. All we are saying is that this position has resulted in this situation affecting our export markets and it is a disadvantage.

Senator Croll: Actually, this condition that you and I agree on, and the committee does too, is a blessing to Canada; on the other hand, the premium is not so much of a blessing, but as between the two is not the first a far greater advantage than the second, from the point of view of the country?

Mr. Gibbings: I will agree that economic development in Canada is beneficial to all of us. I am not certain that it is impossible or even undesirable for those who are in control of the fiscal and monetary policy in this country to regulate the value of the Canadian dollar, which has been done in the past.

Senator Croll: You are now thinking of the wartime period.

Mr. Gibbings: During that period, of course, the shoe was on the other foot as far as the exporters were concerned and it was beneficial to them. The present situation is detrimental. We are suggesting that this detrimental effect is impinging upon the income situation of the farmer and we are suggesting that the Government take steps which are necessary to alleviate this.

Senator Croll: That is what I was hoping you would say finally, because you are not alone affected by it. As you know, the pulp and paper industry is greatly affected by that exchange situation. You say that the Government should take the steps that would alleviate this condition. Help us a little on that, will you? Have you any ideas?

Senator Brunt: Senator Croll, you know there is only one—exchange control is the only way you can do it.

Mr. Gibbings, you say that the premium on the Canadian dollar of 4½ per cent at the present time reduces the price of a bushel of wheat by eight cents. Can you explain the relationship between these two figures. I am referring to what you say on page 13 of your brief. How does a premium of 4½ per cent on the Canadian dollar result in a reduction in the price of wheat by eight cents a bushel?

Mr. Gibbings: Well, the premium on the Canadian dollar at the time this brief was drawn up was 4½ per cent and grain was selling basis export ports, at the lakehead at $1.63 currently, and at export ports at higher figures than that, results in the 4½ per cent when applied to the value of a bushel of wheat results in an eight per cent reduction.

Senator Brunt: Can you tell me when an importing company buys wheat from us, do they buy it f.o.b. Fort William, f.o.b. Montreal, or f.o.b. Liverpool?

Mr. Gibbings: They can do it in any of these ways. They have the choice. If they want to accept the responsibility they can do so, they can buy it c.i.f. Montreal or c.i.f. Liverpool or any of the local ports.

Senator Brunt: If they bought it f.o.b. Fort William it could not possibly result in a reduction of eight cents a bushel.

Mr. Gibbings: Well, of course, the price at the lakehead is lower than the price at either Vancouver or Churchill. This computation was made on the average export price for each of the ports.

Senator **Horner**: And that was No. 1 wheat too?

Mr. **Gibbings**: That was the average export price for Canadian wheat at the various export outlets.

Senator **Euler**: I find on page 16 of your brief you list four recommendations, and I would ask if you would explain a little more fully what is meant by No. 2, which reads, "A two-price system to permit the sale of domestic wheat at prices in fair relationship with the general level of prices in the Canadian economy." Do you mean by that that the consumer in Canada should pay more for wheat consumed here than is paid by those who import it to other countries?

Mr. **Gibbings**: Yes, that is the burden of the recommendation.

Senator **Brunt**: If you look at page 8 you will see an example.

Senator **Euler**: I think you state that your thought is the Canadian people in general would be quite willing to accept that sort of thing. What is the basis for that opinion?

Mr. **Gibbings**: I base it on past experience. I can't give you the exact date, but during the past year the price of bread in the city of Regina went up one cent per loaf. The only explanation was a brief note in the paper where the bakers said that because of increased cost of ingredients and distribution they found it necessary to increase the bread by one cent. There was not a whisper of complaint, and no editorial comment.

Senator **Euler**: That was in Saskatchewan.

Mr. **Gibbings**: Yes.

Senator **Euler**: Did you take the trouble to find out what the consumers in the province of Ontario and in the larger cities had to say about the increase in the price of bread?

Mr. **Gibbings**: I haven't seen any editorial comment, or any letters to the editor which would indicate that they were irate.

Senator **Euler**: I would like to refer again to your recommendation No. 4:

> An adjustment payment by the federal Government to compensate for the loss incurred by wheat producers because of the Canadian dollar premium.

Senator Croll has made reference to the fact that other people in Canada are also suffering by reason of the discount of the American dollar, now running something like 4½ per cent. Do you not think that such an adjustment by way of an actual cash payment out of the federal treasury to the western wheat producer would be class legislation of the worst kind? For instance, we have had mentioned here the plight of the newsprint manufacturer; he is facing tremendous cost by reason of the discount on the American dollar. He exports perhaps 80 or 85 per cent of his product.

Senator **Brunt**: Lead and zinc is another example.

Senator **Euler**: Would that not be class legislation?

Mr. **Gibbings**: Mr. Chairman, we suggested that this was one of the handicaps which faced all exporters. We are not here to present the newsprint interests—

Senator **Euler**: I am sure you are not.

Mr. **Gibbings**: Therefore, we would not be making recommendations on their behalf.

Senator **Brunt**: Quite right; they are able to look after themselves.

Mr. **Gibbings**: We are here in the interests of the grain producers, and we believe they would benefit by this suggestion.

Senator **Euler**: I agree they would. But do you think they have any better case than any other producer who suffers the same disability?

Mr. Gibbings: If they haven't been here, I assume that we have.

Senator Croll: Going back to your recommendation No. 2 with respect to a two-price system to permit the sale of domestic wheat. I suppose you are basing that on the action of the Government when we paid out a very large sum, if you recall, to the grain producers who gave us wheat for domestic use at a low price during the war. Do you recall what that amount was—$164 million?

Mr. Gibbings: You are a little high. It was about $65 million. I am not sure that it was related to that, but it was in settlement.

Senator Stambaugh: The "have regard" clause.

Mr. Gibbings: The "have regard" clause in the Canada-U.K. Wheat Agreement. For a considerable period Canada was selling wheat to the consumers at $1.55 a bushel, except to the Canadian consumer who was receiving it at $1.25 per bushel. During this period, according to our calculation, the Canadian wheat producers subsidized the Canadian consumers to the extent of $48 million, and that was part of the compensation that came from the Government with respect to the $65 million.

Senator Croll: Do you mean the subsidy was $48 million, and we paid you $65 million.

Mr. Gibbings: That was not all of the $65 million. The rest was in settlement of the "have regard" clause of the Canada-U.K. Wheat Agreement.

Senator Horner: That cost us $600 million.

Senator Brunt: On page 8 you make the suggestion that if you increase the domestic price by 1½ cents on bread, it would return an additional $50 million to the Wheat Board. If such a policy were ever adopted, would you give up the idea of asking for deficiency payments?

Mr. Gibbings: As we have indicated, if these politices were adopted the need for deficiency payments would largely be eliminated. But to say categorically that we would not ask for them, would depend...

Senator Brunt: Let us not go that far: would you give consideration to it?

Mr. Gibbings: It would depend on how close this policy, or if you like group of policies, came to meeting the situation of the Canadian wheat producer, and whether or not we would be in a position to change our attitude with respect to deficiency payments.

Senator Brunt: Have you any figure on the cost of production of a bushel of wheat in this country?

Mr. Gibbings: Well, you have asked a very difficult question because, as you know, the price of wheat varies from farm to farm, from year to year and from district to district, the reason being that there are economies in size of farm, types of soil, and the rainfall differs.

About all I can do is indicate to you the situation that existed in the Kindersley area where, Jim Clarke, who has his Master's degree in agricultural economics, is an employee of the larger school area and carries on a farm information program with the farmers in that area. Some 85 farmers operate under his jurisdiction and keep records according to his directions.

During the period 1956-57, according to him, the cost of the product includes 5 per cent return on capital, and $3,000 operator wages, and requires $27 per acre for the average farmer on approximately 433 acres of cultivated land. He said at the present price it would take a disposable yield of 21 bushels per acre to cover the cost of the average producer.

Senator Brunt: But the farmers around Kindersley don't get a yield like that.

Mr. GIBBINGS: That is exactly the point.

Senator BRUNT: Eventually they will all go broke.

Senator ASELTINE: Did Clarke not go further than that and deal with heavy land and light land?

Mr. GIBBINGS: He did, but I don't have that data before me.

Senator ASELTINE: That information was given by the Minister of Agriculture in the House of Commons during one of the debates over there.

Mr. GIBBINGS: Yes, I believe so.

Senator BRUNT: If those figures are correct, it is just a matter of time until the farmers in the Kindersley area will go broke.

Mr. GIBBINGS: This is what he says, in effect. He says: looking at the position of the small farmer we see a near hopeless situation. Any farmer who has less than 480 cultivated acres is classified as small.

Senator BRUNT: Let us stop there. Of the 480 acres how much is summer fallow and how much wheat, 240 each?

Mr. GIBBINGS: Generally in that area they summer fallow 50 per cent. Any farmer less than 480 acres cultivated is classified as small, and the cost per acre is made here on the basis of the present price. He said, the average disposable yield of the area in question is 17 bushels, all of 10 bushels below what is needed to cover costs. In other words, he has taken the average cost of $27 an acre, and he said that is 10 bushels below the average that is required to cover the cost.

Senator BRUNT: Then he is taking the wheat at $1 a bushel to the farmer, I gather.

Mr. GIBBINGS: He is talking the cost per acre.

Senator STAMBAUGH: Do you not mean dollars instead of bushels?

Mr. GIBBINGS: I will read what he says:

> "Looking now at the position of the small farmer, we see a near hopeless situation. Any farm under 480 cultivated acres is classed as small, and the cost per acre is needed here to cover costs at present prices. The average disposable yield of the area in question is 17 bushels, all of 10 bushels below what is needed to cover costs."

I agree there is something missing from that sentence, because it does not make sense. I made a calculation on the margin of the statement to the effect that 63 per cent of the permit holders in western Canada had 300 specified acres or less. There we are talking in terms of 480 acres.

Senator BRUNT: I am thinking of the farmers around Rosetown, for instance, where they operate four sections. Their costs wouldn't be anything like that, would they?

Mr. GIBBINGS: Much of the land in the Kindersley area is heavy clay soil.

Senator BRUNT: The same as around Rosetown.

Mr. GIBBINGS: Similar to Rosetown. But all the farmers in this survey are not in that area.

Senator BRUNT: There isn't any doubt that the cost of producing a bushel of wheat definitely goes down the more acres you operate.

Mr. GIBBINGS: Yes. If I may read further from this report of Jim Clarke. He makes this statement:

> Generally, we concede that the small farmer has a problem. Let us consider the large grain producer. In our analysis they are classed as those farms over 960 cultivated acres. They averaged 667 acres of crop in 1956 and 1957.

> Average costs were $23 per crop acre. A disposable yield of 18 bushels is needed to cover such costs. Even if this yield was attained only half of the large farms would cover costs, and a much smaller proportion of small farms. It is unlikely that this yield will be realized on the average as it is approximately 2 bushels per acre above the average for the area.

Senator BRUNT: Do you think that if this price continues eventually the Western farmers will be bankrupt?

Mr. GIBBINGS: Well, I think that more attractive economic opportunities off the farm will result in a large number of farmers leaving the farms.

Senator HAIG: That is what is happening now.

Mr. GIBBINGS: Yes, but this will not be a change. In 1936 we had 142,000 farmers in Saskatchewan, and in 1956 we had 112,000.

(*Later:*)

Mr. GIBBINGS: I would like to correct the statement I made respecting the number of farmers in Saskatchewan in 1956. The figure is 103,000, not 112,000 as previously stated.

Senator CROLL: And your production is up?

Mr. GIBBINGS: Yes.

The CHAIRMAN: The hour is getting late, and the Senate sits at 11 o'clock. Senator Euler has had his hand up for 15 minutes. I will call on him now, and Senator Smith will follow, and then we will adjourn the meeting.

Senator EULER: I just want to ask the witness whether this is a fair summing up, that his representations would mean that the wheat growers are asking for a further cash subsidy out of the public treasury at the expense of the Canadian taxpayer at large, and whether he thinks that is in the national interest as well as the interest of the wheat grower of Western Canada.

Mr. GIBBINGS: We ask in the presentation that it be considered. We say that the wheat industry is not only important to the farmers, but it is important to Canada, and some of these recommendations would result in an outlay from the public treasury, but some would not. The two-price system would not be a burden on the taxpayers of Canada. It would be paid through the consumers.

Senator SMITH (*Queens-Shelburne*): My question, dealing with this subject, is: Have you ever made a calculation of the total cost of the other things that you suggest might be done?

Mr. GIBBINGS: No, not in terms of dollars. We made a calculation as to what this might mean in terms of cents per bushel.

Senator SMITH (*Queens-Shelburne*): Can you multiply that out, roughly, and give us a general idea?

Mr. GIBBINGS: I have done it mentally, and I will have to recap it to give you that, but I think if you go through the brief you will be able to make that calculation yourself. As I recall it, it would amount to very close to the level of deficiency payments that we were suggesting in the first of the crop years.

Senator SMITH (*Queens-Shelburne*): Let me ask you this: If this sort of thing were done would you agree that it would also be in the national interest to do the same thing for the fishing industry, for example, and the pulpwood producers?

Mr. GIBBINGS: I would say, sir, if their cause is as just as ours, then it would.

The CHAIRMAN: Mr. Gibbings, on behalf of the honourable senators, thank you very much.

The committee adjourned.

Second Session—Twenty-fourth Parliament

1959

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE
on the Threat of Inflation in Canada

No. 10

THURSDAY JULY 9, 1959

THE HONOURABLE CLARENCE V. EMERSON,
Chairman

WITNESS

Mr. James E. Coyne, Governor of the Bank of Canada.

APPENDICES

B. Submission by The Trust Companies Association of Canada.
C. Submission by Mr. H. B. Style, President, John Inglis Company Limited.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

21567-3—1

THE STANDING COMMITTEE ON FINANCE

Chairman: The Honourable Clarence V. Emerson.

The Honourable Senators:

*Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Buchanan
Burchill
Campbell
Choquette
Connolly
(*Halifax North*)
Connolly
(*Ottawa West*)
Crerar
Croll
Dupuis
Emerson
Euler
Farris
Gershaw
Golding
Haig
Hayden
Higgins
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Power
Pratt
Quinn
Reid
Robertson
Roebuck
Savoie
Smith
(*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
Wall
White
Woodrow—50.

**Ex officio* member.

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, TUESDAY, April 28, 1959.

"Pursuant to the Order of the Day, the Senate resumed the postponed debate on the motion of the Honourable Senator Wall, seconded by the Honourable Senator Leonard:

That the Standing Committee on Finance be instructed to study the threat of inflation in Canada;

That the Committee have the authority to send for persons, papers and records, and to report from time to time.

After debate, and—

The question being put on the motion—

The Senate divided and the names being called they were taken down as follows:—

CONTENTS

The Honourable Senators

Baird
Basha
Beaubien
Bois
Boucher
Bradette
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Croll
Dupuis
Euler
Farquhar
Gershaw
Golding
Grant
Hodges
Hugessen
Isnor
Jodoin
Lambert
Lefrançois
Leonard
Macdonald
McGrand
Petten
Pouliot
Pratt
Reid
Robertson
Roebuck
Savoie
Smith (*Kamloops*)
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Westmorland*)
Vaillancourt
Veniot
Wall
Woodrow—40.

NON-CONTENTS

The Honourable Senators

Aseltine
Brunt
Buchanan
Emerson
Gladstone
Haig
Higgins
Horner
MacDonald
Methot
Pearson
Quinn
Sullivan
White—14.

So it was resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, July 9, 1959.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 9.30 a.m.

Present: The Honourable Senators: Emerson, *Chairman*; Aseltine, Bouffard, Brunt, Buchanan, Burchill, Connolly (*Ottawa West*), Crerar, Dupuis, Euler, Golding, Haig, Higgins, Lambert, Leonard, Macdonald, Robertson, Stambaugh, Taylor (*Norfolk*), Turgeon, Vaillancourt and Woodrow—22.

In attendance: The official reporters of the Senate.

Consideration of the order of reference of April 28, 1959, was resumed.

Mr. James Coyne, Governor of the Bank of Canada, was heard.

On motion of the Honourable Senator Woodrow, submissions by The Trust Companies Association of Canada, and Mr. H. B. Style, President, John Inglis Company Limited, were ordered to be printed as Appendix B and Appendix C, respectively, to these proceedings.

Further consideration of the order of reference was postponed.

At 11.00 a.m. the Committee adjourned to the call of the Chairman.

Attest.

John A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

STANDING COMMITTEE ON FINANCE

Ottawa, Thursday, July 9, 1959.

EVIDENCE

The Standing Committee on Finance, which was instructed to study the threat of inflation in Canada, met this day at 9.30.

Senator Clarence V. Emerson in the Chair.

The CHAIRMAN: Honourable senators, I would like to mention first that the committee has received two briefs which I am going to ask to be incorporated in the record. One brief was sent to me and the other was sent to Senator Leonard. One is from the Trust Companies Association of Canada and the other one is from the president of the John Inglis Company. Do I hear a motion that these be printed in the appendix to today's proceedings?

Senator WOODROW: I so move, Mr. Chairman.

(For submission by Trust Companies Association of Canada, see Appendix B)

(For submission by H. B. Style, President John Inglis Co. Ltd., see Appendix C).

Senator TAYLOR (*Norfolk*): Mr. Chairman, before we proceed with the order of business today I would like to make a correction in the report No. 8 of the committee, of Thursday, June 25. At page 379 I am reported as making certain statements and asking certain questions but it is a case of mistaken identity. It was Senator Fraser who was asking the questions and I would like to have the report to read "Senator Fraser" instead of "Senator Taylor".

The CHAIRMAN: I well remember the incident. We will have that change made, Senator Taylor.

Senator HAIG: We all remember it.

The CHAIRMAN: Honourable senators, this is the last meeting of the Finance Committee on this subject and I must say that we are very happy to have with us at this meeting a very distinguished witness. Without any further ado I am going to call on Governor Coyne of the Bank of Canada to address the committee.

Mr. James E. Coyne, Governor, Bank of Canada: Thank you. Mr. Chairman, I do not have any formal brief to present to your committee. I followed at a distance some of the very interesting statements you have received and the discussion which you have had on them but I must say I have not been able to read it in any great detail and you may find me ignorant of some of the proposals and suggestions which have been made to you.

I take it you would like me to say something about the position of Canada's central bank in relation to this great problem of inflation which you have under study.

I always like to preface my remarks on this subject by going right back to the act of Parliament. When the Bank of Canada was established by statute

in 1934, the statute contained a preamble which sets forth the purposes for which the central bank was established and really gives, I think, a directive to the bank as to the objectives which it should pursue. The preamble reads:

"Whereas it is desirable to establish a central bank of Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion:"

I think it will be apparent that the founders of the bank, the legal draftsmen and members of Parliament in those days did not expect the bank to be able to work miracles or to be anything in the nature of a pooh-bah in the economic scene. It had a certain job to do, to regulate the money supply and it is expected to guide itself in so doing in such a way as to have a beneficial effect on economic activity and various aspects of economic activity throughout the country. But there is no suggestion that it could strictly control or that it could achieve any particular level of employment, or prices, or production merely by monetary action. What it can undoubtedly do to a great degree is to mitigate fluctuations, as the act suggests; monetary policy could be operated in such a way as to contribute to inflation, to make the fluctuations greater but naturally it should operate in such a way as to fight off inflation and for that matter, too, to fight deflation, and to make the fluctuation between the highs and lows of the economic cycle less rather than greater. The monetary policy will affect other matters, not only prices to some degree but by indirect ways the total level of economic activity within the country. It could be operated in such a way as to assist economic growth and development of a high level of employment; it could conceivably be operated in such a way as to have an adverse effect upon those factors; and I think this is true in any country in the world; the Central Bank must so far as it can have regard to a number of factors in the way it goes about its operations, and not just one factor, no matter how important that one factor, such as price stability, might seem to be. On the other hand, there may be times when one of these factors, again such as price stability, seems rather important and urgent to have attention paid to it than to the others, and I think under those circumstances the Central Bank should carry out its operations with an eye to that particular factor in some priority to the other factors for the time being.

I mention all this because sometimes one sees public discussion throughout the country rather suggesting that a central bank can work wonders and that if only it had the proper powers or sufficient wisdom it could bring about a continuous state of full employment and price stability regardless of what other people throughout the country were doing. Obviously you do not or would not have any such ideas as that. There are many other agencies throughout the country, both at the federal level and the provincial-municipal level, and in the field of private business, and in the field of the ordinary private pursuits of the ordinary citizen, which will have very important effects on the level of economic activity, unemployment, and on prices. One must hope that to the greatest degree possible all such activities will be directed towards the common goal of the encouragement of a high level of employment and the highest possible level of economic growth consistent with price stability.

One matter I would like to mention now in connection with keeping our eye on the Canadian price level and operating monetary policy with a view towards price stability is one which I am sure is obvious to anybody, and which I noticed was mentioned only in passing by Professor Knox in that remarkably interesting paper with which he opened during the discussions, because he felt he did not have time to go into it in detail.

I don't want to go into it in any detail, but I want to mention prominently the effect upon Canadian economic conditions of external economic conditions—the effect of changes in world markets for our products, and many other factors in the external world, particularly the United States, which affect our rate of economic activity and our price levels.

I mention it not just to say that the responsibility for those matters rests to some extent outside our own control, but rather to mention what implication it has for activities of our own.

If prices in the outside world, particularly in the United States, rise or fall by any significant amount there will be a very strong tendency for Canadian prices to do likewise, whether or not there are domestic factors at work suggesting a change in prices. That will communicate itself to the Canadian market through the exchange of foreign currency for Canadian currency, and through the calculation of what is the equivalent Canadian price for an import which has to be bought with foreign currency, and for an export which has to be sold in foreign currency.

In conducting our own affairs I think we should at the very least try to prevent our price level fluctuating more widely than say that of the United States. We should at the very least try to prevent ourselves adding domestic causes of inflation or deflation to what causes are affecting us from abroad.

But that only carries the story part way. Perhaps that is as far as we can go—I would hope not. I would hope that, particularly in the short run, we could to some extent offset price movements that are occurring abroad. And, at any rate, if these price movements abroad are very broad based and large in magnitude, that we would to some extent try to insulate ourselves and not suffer as big a price rise or price decline in Canada, expressed in Canadian currency.

This would only be possible for any period of time if the value of the Canadian dollar in terms of these other currencies change in the opposite direction to the price movement. If prices rise substantially in the United States, and if we take action designed to prevent rises in prices, that will only be possible over a period of time if the Canadian dollar is allowed to rise in its value relative to the United States dollar. There may be very strong reasons why some people say that is undesirable, but I mention it as one of the necessary conditions, if we expect to be able to protect ourselves from price changes taking place abroad, and particularly in the United States, because to some extent the whole North American economy is a unit and is not affected nearly as much by development outside as, for example, Canada is affected by developments in the United States.

Within Canada, and in the field of monetary policy of the central bank, there are various limits on the scope of action we can take. Our direct relations are only with the chartered banks. We put currency into circulation that is deposited by the public with the chartered banks, for the most part—I will come to the other institutions in a moment—and the chartered banks deposits are regarded as money, for most purposes—part of our usual definition of money. With respect to the volume of currency and of the chartered banks' deposits, the central bank can obviously exert some quantitative influence on the credit granting activities of the chartered banks, not necessarily on anybody else.

Even the chartered banks have very great room for manoeuvre at any given moment because even though their total deposits and total assets were constant, or were even being contracted, they could make very considerable transfers from one form of loan or investment into another form of loan or investment. The most obvious case is that if they have a large volume of Government bonds and want to increase their commercial loans or their personal loans they can do so by finding buyers for their Government bonds

and then, in turn, making loans. But, there are many other forms of money or near money and many other institutions taking deposits. There are many other institutions granting credit, and many which are in the business of taking deposits. There are many other forms of securities—the short-term notes of instalment finance compagnies, the financial paper of large corporations, the promissory notes which are put into circulation and which in the hands of a holder are very nearly the equivalent of money, and which in total can be very important and have a very significant effect on the total rate of spending throughout the country, but which are not directly subject to any regulation by the central bank, or very much regulation by anybody else.

I think there has been some discussion before you of the relationship between the quantity of money and the total rate of spending, which is sometimes called the velocity of circulation. It is quite obvious that a given volume of money in the form of bank deposits may be more or less dormant and not being spent, or it may be spent rapidly and turn up in the hands of someone else who, in turn, spends it or lends it, and you cannot tell from just looking at the mathematical figure of the quantity of money just what the rate of spending is going to be in the economy. That rate of spending or—if you wish to use this term—the velocity of circulation of money is something that has also to be looked to, and is something that we do not know too much about. Certainly, it is something over which it is very difficult to exercise any influence.

One of the factors in the velocity of circulation of money—and a very important factor—is the activity of other credit institutions in extending credit and taking deposits. This rate of activity may increase very much at times, even at a time when the chartered banks are being restricted, or feel they are being restricted, in relation to the volume of credit that they can make available. Even though the volume of money is not increasing, or, perhaps, is decreasing, there can be nevertheless a very great increase in the activities of these other bodies, and it may be that you would want to control and regulate the volume of money so as to offset its velocity of circulation.

It may also be that you would not have very good instruments or techniques for doing that, and I think that is probably the position we are in, not only in this country but in most other countries where the main economic motivation is private enterprise.

If you are really trying to exercise control—I am not advocating it; I am merely posing the problem—or strong influence over the total volume of spending within the country you would have to find some means of influencing, by way of holding steady or contracting, other credit granting institutions than the chartered banks alone, and various other forms of private extension of credit which can stimulate spending and which can make people feel very liquid, and, which can make at a time of prosperity everybody think he or she can go ahead and borrow money in order to engage in an enterprise which he or she is sure is going to be successful and profitable, but which in total volume will be much greater than the country can possibly accommodate.

I am sure we have yet very much to learn about these problems, and what, if anything, to do about them, and we certainly do not have the instrumentalities or techniques to deal with them.

I may have sounded rather negative in most of what I have said. I would not like to deny the powers that exist, and the influence that can be brought to bear by the central bank through its control of the volume of money as defined, and by the other bodies and institutions which I have mentioned including the federal Government's fiscal policy, the question of Government

surpluses and deficits, the method by which the public debt is adjusted, the possible changes in tax laws which, of course, are entirely outside of my field, and all the various provincial agencies which can have a considerable influence. I take it what we are all trying to do is to promote prosperity in the broadest sense, and to foster, if we can, economic growth and a high level of employment today without creating price instability, not merely because price instability on a major scale can be very damaging to all of us but because price stability, in my opinion, is an essential prerequisite for a sound and continuous economic growth.

Perhaps I have talked long enough by way of introduction.

The CHAIRMAN: Thank you very, very much, Mr. Coyne. That was a very informative address, and I will now throw the meeting open to the honourable senators who would like to ask some questions of you.

Senator LEONARD: Mr. Chairman, perhaps I could start the ball rolling, and in doing so may I compliment Mr. Coyne on his talk, and thank him for coming here, and inform him that we all realize the great responsibility that he carries in the very important position he holds. I am sure all of us agree that he has been handling it with very great care and ability, and we want to help him whenever we can in the discharge of his great responsibilities, and we, in turn, will appreciate any help he can give us in this study which is certainly a matter of great public interest.

I would like to refer to two or three matters that have been brought before us by other witnesses, and while I think his general remarks have covered to some extent the points that he may want to deal with in answering questions nevertheless I think it might be as well to relate them specifically to the questions.

I wonder if he will permit me to read into the record of our proceedings a part of the report of the Bank of Canada for 1958 which deals with one of the matters which we have been discussing. It is on page 9 of the report, and I think it is as well to have it on the record. Mr. Coyne has said something to this effect here, but I think this statement, although it is already in a public record, may as well be repeated. He said:

> I believe that monetary policy must strengthen and re-affirm its determination to remain true to the basic principles of sound money. Perhaps the greatest obstacle to the proper use of monetary policy is the spread of the theory that democracies cannot have both high employment and stable prices, that they must inevitably choose between unemployment and inflation, that high employment can only be achieved by the acceptance or even the deliberate creation of some degree of inflation. I am certain that these views are fundamentally wrong.

I think most of us would like to see that statement endorsed by this committee, and I am sure Mr. Coyne would be glad to have us do so.

Mr. COYNE: Yes.

Senator LEONARD: Coming to the specific question, in the evidence of Mr. Muir, on page 285 of our proceedings, he asks the question: "Do we have the machinery to control inflation?" And then at the foot of the page he goes on to say:

> "The answer to the first question is an unqualified "yes". We do have the machinery to prevent inflation. The Bank of Canada has complete control over the money supply, which it can alter at any time by effecting changes in chartered bank cash reserves. With rare and insignificant exceptions, no inflation can take place without an increase in the money supply or in the velocity of circulation."

Have you any further comment on that, Mr. Coyne?

Mr. COYNE: First of all, may I say that Mr. Muir's brief was, in my opinion, a most admirable one. There were one or two points where I was not fully in agreement with him, but in this connection I would point to the final words with which he concluded "... in the money supply or in the velocity of circulation." I have already talked to you quite a lot about that subject. He rather skated over that. He did not want to get into that problem, perhaps, but to my mind that is the central problem of monetary policy, how you estimate or try to influence that velocity of circulation. As I say, I do not think we have complete control over it by any means, and I do not know that we ever will.

Senator LEONARD: Of course, there is an effective limit to an increase in velocity of circulation.

Mr. COYNE: We have never found it. It might be very dangerous to try to find it. I think most periods of inflation, in fact all periods of inflation, boom periods, have come to an end before the effective limit in the velocity of circulation has been reached.

Senator LEONARD: Then the qualification on this answer of Mr. Muir's, the importance of velocity of circulation, is a very great factor in the controlling of inflation?

Mr. COYNE: Yes.

Senator LEONARD: Then I would like to turn to the evidence of Mr. G. Arnold Hart, President, Bank of Montreal, which deals more with the current situation, and he says at page 135 of our proceedings:

> To speak bluntly, I suggest that public understanding of the nature of the present problem would be greatly improved, with advantage to all concerned, if there were less of a tendency to apologize for, or to attempt to explain away the basic reason for, the present levels of interest rates. I believe there is need for a frank admission that the present interest rate structure is an inevitable consequence of a national monetary policy pursued in the national interest." Would you care to comment on that?

Mr. COYNE: I certainly am in favour of more public understanding and discussion of these various matters. Your own committee is doing a very valuable job indeed in stimulating discussion not only amongst yourselves but throughout the country. I am not quite sure what Mr. Hart was getting at. It is true, of course, that ministers of finance and other ministers of the Crown have talked about these subjects, and although I do not do much public speaking, the Governor of the Bank has his annual report, which is a considerable economic document and perhaps it could be benefited by being more widely read. Mr. Hart's statement is a little flat. I would say that the level of interest rates at any time is inevitably and naturally the reflection of all the economic factors at work and all forms of Government policy, including of course the monetary policy. However, I would not say that monetary policy can necessarily put interest rates just where somebody would like to see them put, by no means. You might have a monetary policy apparently designed to reduce interest rates by having the central bank buy a lot of Government bonds in the market. This might throw a great scare into people and cause them to want to get rid of their Government bonds; it may also in due course lead to inflation and under conditions of real inflation you will certainly have rising interest rates no matter what is done to prevent it.

So I do not think that monetary policy alone causes movements in interest rates although it has an influence and sometimes it will be more so than at other times.

Senator LEONARD: Mr. Edmison of the Canadian Chamber of Commerce in his presentation here referred to the positions of the Bank of Canada in its various capacities, one of which is debt manager for the Government, one as

fiscal agent for the Government and then in its position as governor of monetary policy of the country, and having in mind particularly the necessity last year for the Bank of Canada to finance the cash deficit of the Government and also to manage the Conversion Loan and also to deal with the monetary policy of the country that in those positions there was some potential or actual conflict of interest and possibly an embarrassment to the Bank of Canada in having to deal with those three positions.

Would you care to comment on that?

Mr. COYNE: The expression that is used that the Bank of Canada is the debt manager of the Government is perhaps misunderstood. We are required by statute to keep the records of the public debt and to handle the mechanical arrangements for putting out new bond issues and paying for maturing ones, and we normally act for the Minister of Finance in communicating his offers of new issues to the investing public, investment dealers and banks. But there is no necessity for that to influence either our actions in the monetary field or the Minister of Finance's own judgment as to what he wants to do in the field of public debt management. In practice in this country I think the Minister of Finance and the Department of Finance as a whole has normally kept in close touch with the central bank and our ideas and their ideas might often intermingle and come up with a composite result which would be reflected in what was done in the field of debt management. But it does not necessarily follow. For instance the cabinet might make a decision which no one of their advisers happened to have recommended to them, the decision is a decision of the Government or the minister as the case may be, and he must take the responsibility for it from whatever source he gets the inspiration. I do not think there is a conflict there.

The other suggestion that the central bank is required to help out the Government when it needs money—I think that was the idea that if the Government runs a deficit and does not get its money anywhere else it may turn to the central bank for assistance, and any assistance given might in the circumstances be contrary to the best aspects of monetary policy. That is a possibility.

In the last resort if the national Government were to say we have no money to pay our bills or to meet a maturing bond issue I think the central bank would have to see to it that the Government did not default. It would bring about a lot of publicity one way or another, and the Government would deal with the situation as it saw fit. But that particularly extreme position has never arisen and I expect it never will.

Perhaps some people talk about what happened last year particularly in relation to the Conversion Loan but also in relation to other forms of Government financing last year. The central bank felt it had a proper function to perform in its capacity as central bank in operations that took place last year. It was not a case of any pressure or demand from the Government, it was a central bank's field, it had a proper function to perform. The central bank must have an interest in the state of the Government bond market regardless of whether the Government is running a surplus or a deficit because of the central bank operations in the security market, including treasury bills, which are the most efficient and the least disturbing method by which the central bank itself can carry out its monetary policies. It cannot do that if the Government bond market ceases to operate or gets into a very bad condition.

So personally I take full responsibility on behalf of the bank for anything we did in that field last year.

Senator LAMBERT: Mr. Chairman, may I ask a question that has to do with the terms of reference given to this committee, whereby we are supposed to inquire into the threat of inflation.

Would the witness care to express an opinion as to whether that threat of inflation has become a reality and to what extent or line of demarcation there

is between the threat and the actuality of inflation. Are we in a state of inflation now, or are we past the stage of a threat, and into a real siuation which should be controlled if possible.

Mr. COYNE: There is a threat of inflation. I think there is a threat of inflation that is a potential danger in an era of rising economic activity and it gets stronger as you approach the condition of full employment without any let-up in the expansion of credit and the placing of facilities in the hands of people to increase their spending. Last year, even in a period of recession in the early part of last year there was a much greater fear of possible inflation than was justified, in my opinion. I think that fear is abating somewhat but I do not think the struggle to contain possible inflationary forces is over yet. Perhaps it never will be over. Perhaps it is a constant struggle.

In the United States they are now giving a great deal of attention to this, as you know. There a committee of the cabinet was appointed called the Cabinet Committee on Price Stability for Economic Growth, and at the end of June they made an interim report to the President saying it was their "unanimous opinion...that our economy is now at a critical juncture, urgently requiring action to forestall inflation and insure sound and sustained economic growth and progress".

That report was released by the White House on June 21. And they went on to suggest several things including the removal of the upper limitation on bond interest rates as a necessary measure in the present situation. I am confident the Americans will win out in the end but they are having a great deal of discussion and a great deal of heavy thinking on the subject right now. If there is a threat of inflation there, there certainly is one here if only by contagion or overflow from the United States.

Senator LAMBERT: Is it possible to establish a danger line or a dead line by any measuring rod or formula that could be defined by the central bank as to the danger stage and the threat stage? I think the difficulty is to know where is the line of demarcation between real inflation, the dangers of inflation, the impact of it and actual sound economic growth.

That is a pretty difficult question to answer, I am sure, but in thinking about it one is interested particularly in the remark that was made about the immediate control in the future of money circulation and credit. Money circulation is now a matter of control by the Central Bank, I understand, but there is a demand for increased money circulation, a demand for credit, for which I suppose the first line of contact is the chartered banks and the credit societies. I suppose public demand is responsible for the initiative that is involved in the increasing demand in Parliament for credit and money circulation. Now, how much of the competitive factor that exists among the chartered banks today is responsible for accelerating that demand? In other words, is it a demand that originates spontaneously with the public who wants to spend money or is it encouraged in doing so to a greater extent by various institutions and on which I suppose in such situations the Central Bank's functions could act as a sort of brake on all this?

Mr. COYNE: Well, if you will use the word "certain" institutions—it is a very broad phrase, rather than chartered banks. Mainly it is a question of public demand, but I think there are some institutions, probably not in general the chartered banks, which stimulate that demand by advertising, and so on, and there may be some people who think that is a good thing. On your first point, I do not think the making of a pronouncement on the subject of whether now we are in danger of inflation or not, whether we have crossed the borderline and will cross back again, is something that should be done by the Central Bank. It is a much broader question than monetary policy, and other

people are entitled to have their views on it. The Central Bank is not the fount of all wisdom, and I think it would be handicapped in its operations if it had to do too much of that sort of thing.

Senator MACDONALD: May I ask one question in some way related to the question asked by Senator Leonard? At the opening of his remarks he referred to a statement in the annual report of the Bank of Canada to the effect that it has been said that there must be inflation to have high employment, etcetera. I will preface my question by saying that there is a school of thought among economists who believe that there is no harm in so called creeping inflation. Does the statement which was read by Senator Leonard rule out creeping inflation? I want your views with regard to the danger of creeping inflation.

Mr. COYNE: Well, for one thing I do not believe there ever has been or ever will be creeping inflation for any length of time. I think it will either break into a gallop or lead to a collapse and presently move the other way. I do not believe inflation is desirable or helpful. This is as much a matter of common sense as anything else, and you gentlemen certainly have as good an opinion as I have of it or any economist has of it.

Senator BRUNT: I wonder if you would have any objection to explaining to us how the rate of interest on treasury bills is fixed each week?

Mr. COYNE: That is very simple—by sealed tender. The minister advertises how much he wants to obtain by the sale of treasury bills.

Senator BRUNT: Could you take a specific example?

Mr. COYNE: Yes. Bids are received from the banks, bond dealers and the Bank of Canada. Each bid expresses the desire to buy a certain quantity of bills, if they can get it, at such and such a price. Each of those bids is sealed in an envelope and is not known to anybody else, including the Bank of Canada, until all the tenders are received and opened by a representative of the Minister of Finance in the presence of various witnesses. The minister accepts the highest bids, which produces the lowest interest rate, until he gets to the point where he has got all the money he has advertised for, and he rejects all the remaining bids.

Senator BRUNT: Does it ever happen that the bid of the Bank of Canada is not accepted?

Mr. COYNE: Yes, it does.

Senator BRUNT: In other words, the rate on treasury bills at times has actually been fixed by the chartered banks, and not by the Bank of Canada?

Mr. COYNE: But all bids are by a very much larger group than the chartered banks.

Senator BRUNT: Yes, I was wrong in saying by banks. I mean by bidders, other than the bank of Canada.

Mr. COYNE: Yes, at times, but not always.

Senator BRUNT: Is there any restriction as to the amount that anyone can bid on for treasury bills? Could some institution or bond dealer bid for the entire allotment?

Mr. COYNE: He could, if he thought he was going to be able to pay for it.

Senator BRUNT: And the Bank of Canada could, if they wanted to, bid on the entire allotment?

Mr. COYNE: Yes.

Senator BRUNT: And the rate has been fixed at times without the bid of the Bank of Canada being taken into consideration?

Mr. COYNE: That is right, sir.

Senator BRUNT: So that your bid goes in along with the rest of them?

Mr. COYNE: Yes.

Senator BRUNT: I had heard that your bid went in after the other bids.

Mr. COYNE: It may be in point of time the last one to get in, but I am not sure.

Senator BRUNT: But you have no knowledge of the other bids?

Mr. COYNE: No.

Senator LEONARD: Would there be times when the Bank of Canada took the entire issue?

Mr. COYNE: Not to my knowledge.

Senator HAIG: I want to ask a question, Mr. Chairman. If I have $5,000, and I deposit that in one of the chartered banks, they will allow me 3 per cent interest on my money.

Mr. COYNE: I think it is 2¾ per cent in savings accounts.

Senator HAIG: Today in my city very responsible people are advertising to pay 5½ per cent and they guarantee the money investment for one, two, or up to five or six years.

Mr. COYNE: Yes.

Senator HAIG: The money is drifting there and is not going into the banks. What effect has that on inflation? Before you answer that question may I point out that the banks can only charge 6 per cent when they re-lend that money to the public?

Mr. COYNE: Yes.

Senator HAIG: The chap who borrows it can charge whatever he likes—whatever the traffic will bear. The company I have in mind is advertising in Winnipeg, and they are asking I think about 7 per cent—they are offering to pay 5½, and some of them 5¼ per cent. It is one of these companies that discounts for 12 per cent. As I say, they are offering 5½ per cent, and they are financially good. They are lending at 7 or 8 per cent, and on short-term loans it may be 12. It seems to me that is where the money is drifting.

Senator BOUFFARD: Practically all the trust companies are offering time money at 5¼ and some at 5½ per cent. Is that right, Mr. Coyne?

Mr. COYNE: It is an interesting illustration of price competition, that some institutions will pay more for money than the chartered banks feel it necessary to pay. But they don't get all the money. Since last October the total volume of chartered banks' deposits has not gone up; it couldn't go up in total volume unless the Bank of Canada were adding to its holdings of Government securities. But within that total they have had a considerable increase in savings deposits with the rate of interest at 2¾ per cent, and a decrease in non-interest bearing deposits.

Senator LEONARD: To keep the record clear, I think we should also say that there is a difference between 2¾ per cent for deposit money, or call money, and 5¼ and 5½ per cent on term money for one, two or five years, which has its rate set by the going interest rate on other securities, including Dominion of Canada bonds.

Mr. COYNE: Yes.

Senator HIGGINS: Mr. Coyne, I am a little man who lives in a small place, and has never trod the rich and lush fields of high finance and mixed with financial wizards. We look to simple things. My question may be simple because I haven't the financial knowledge to follow the routine of the complex questions being asked here.

I would like you to answer this question which, so far, has not been answered satisfactorily. I want to know if the general increase in wages has anything to do with inflation. I put it another way: In recent years there has been a heavy increase in wages. That is a truism, is it not?

Mr. COYNE: Yes.

Senator HIGGINS: And there has also been a heavy increase in the price of commodities.

Mr. COYNE: Not as much as the increase in wages.

The CHAIRMAN: Not all commodities.

Senator HIGGINS: Those things that were luxuries years ago are now ordinary commodities—motor cars, for instance. A man has to pay very much more for his house than he paid some years ago.

Now, if you do not want to answer the question, it is quite all right.

Mr. COYNE: Senator Higgins, you said you were able to ask only a simple question. This is a most complex question.

Senator HIGGINS: Sometimes we little men get down to fundamentals.

Mr. COYNE: One question that used to be debated in the old days was which came first, the chicken or the egg. There will be an unending argument as to whether wage increases and other cost increases forced the producer and seller to raise his selling price, or whether the fact of the selling price going up, meaning that your costs go up, force you to ask for an increase in wages.

I would hesitate to enter into that controversy, at least in this connection.

Senator HIGGINS: I am sorry, sir. I have another meeting to attend, Mr. Chairman, and I just wanted to put that question before I went.

Mr. COYNE: I do not think you will get an answer for a long time.

Senator CONNOLLY (*Ottawa West*): Mr. Coyne, you have talked about the agencies that were operating in the field of extending credit. You put the banks into one category and the other institutions, such as finance companies, trust companies and loan companies, into another category. Can you say, roughly, what percentage of the field is occupied by the banks and what by these other agencies?

Mr. COYNE: I would have to look that up. You mean in volume of dollars and that sort of thing?

Senator CONNOLLY (*Ottawa West*): Yes.

Mr. COYNE: It depends on the course the other agencies take, whether it is only the deposits or whether it includes debentures and notes.

Senator CONNOLLY (*Ottawa West*): The banks would occupy a larger part of the field?

Mr. COYNE: Yes, I would think so.

Senator CONNOLLY (*Ottawa West*): I would like to revert again to evidence given by Mr. Muir. He was talking, as you will remember, about control, and one of the questions we asked him was whether or not there was jurisdiction in the federal authority to impose control. I do not argue that control is a desirable thing. He said that he thought control could be exercised—I think you mentioned earlier the control which the central bank and federal authorities have over the chartered banks.

We wondered whether there would be any other jurisdiction in Canada in the federal field to control these other institutions which do extend credit. The British North America Act says the federal authority can control banks and banking. Suppose it were necessary to control any other field—I don't know that it could be done from here. Would you care to comment on that?

Mr. COYNE: No, I think you and the other constitutional lawyers would have to decide that.

Senator CONNOLLY (*Ottawa West*): It has never been a practical problem?

Mr. COYNE: I do not know that it has ever been seriously studied.

Senator EULER: Mr. Chairman, Senator Lambert asked a question which in my opinion the witness, in his discretion, did not entirely answer because perhaps he did not like to. Although the committee is appointed to discuss the threat of inflation Senator Lambert wanted to know, and I would like to know also, whether in the opinion of the witness we have actually reached the state of inflation. That is one thing.

Mr. COYNE: I am sorry. There were several questions bound up in one and I may have missed part of it. Again you have to define what you mean by inflation. In the terms of the simplest possible definition: has the broad index of retail prices, or broader than that, has the consumer price index been rising? The answer is that for about 12 months it has shown very little change. Some elements in that index have gone up. Others, particularly food and agricultural prices, have gone down. There is a tendency for non-food prices not to go down even in conditions of recession, apparently. I would think there is some danger, some possibility, that as economic recovery gathers force these non-food prices will continue to go up and some food prices will start to go up. Some have already gone up. In addition to that we are speaking only of retail prices. In the wholesale price level there was some decline during the recession, particularly in the field of raw commodities where some prices declined. There is said to be a surplus of most commodities. I think past history shows that a condition of supposed surplus can turn into a condition of supposed scarcity almost overnight if a sufficient number of people set about to purchase these commodities, feeling they would need them in the future. So it is quite possible there will be a substantial rise in commodity prices in the not too distant future.

The fall in commodity prices did not succeed in bringing down retail prices except in some food items, and a few others. But the rise in commodity prices under these conditions would bring about a further rise in retail prices.

Senator EULER: I am going to assume from what the witness has said that we are in a state of inflation. If we are in a state of inflation then naturally this committee would like, if possible, to get the opinion of the witness as to how this state of inflation, which as the witness has said is undesirable, can be controlled. I have just one more question which perhaps would be as embarrassing as one asked by Senator Higgins earlier. Would he say, as has been assumed and been stated by witnesses here, and which I think is the general opinion throughout the country and we are all to blame, that excessive speding is the cause of inflation to a very considerable extent? This is not a political question, I assure my friend. I am talking about excessive spending on the part of the federal Government, provincial Governments, municipal Governments and even individuals. In the opinion of the witness is that a serious cause of inflation?

Mr. COYNE: I would say that excessive spending, or, which is just as bad, attempts to spend in excess of the supply of goods and labour that can be brought forward, is always the cause of inflation or a basic cause of inflation. That is, everybody in the country. without singling out any particular element in it. all the various individuals and institutions doing the spending may think

they are doing the right thing, that it is necessary in their own interests and in the general interests that what they are trying to do should be done, but there comes a time when the amount is excessive and will lead to a raising of prices.

Senator EULER: Would you say they are spending excessively now?

Mr. COYNE: No, I would not say so, but the rate of spending may become excessive.

Senator EULER: And it may still be a threat?

Mr. COYNE: Yes.

Senator ROBERTSON: Mr. Coyne, in your opening remarks you referred to the fact that Professor Knox had not referred particularly to our position in relation to external trade. Would you care to comment on what the situation is today in connection with our price structure as respects our export market and competition in the export market, and what it is likely to be in the future? To illustrate what I mean may I say I have just recently returned from the Old Country. While I was there I heard public men talking about improved conditions in Britain and on the continent, particularly in the export market. They made reference to the fact that the North American continent is falling behind in the matter of exports, relatively speaking. Is there any indication that in the immediate future our price structure is likely to seriously affect our export trade and our ability to compete in the export market?

Mr. COYNE: Well, in the broadest sense that is always a part of the danger of inflation, but what I think has happened so far in Europe particularly, which used to be a very important producer of goods for the world, is that it fell behind of necessity in the early post-war years and it also experienced a great deal of inflation itself. North American producers found things pretty easy for a time. They were the only ones in a position to supply world markets. There has been a process going on for some years in which European production capacity has first been restored to pre-war levels and then gone beyond, and now that they have their inflation under control their products have become more and more competitive with North American products. I would hesitate to say that, as the saying goes, we have priced ourselves out of world markets, but it is part of the general overall problem of maintaining price stability here and it could happen if we let things get out of control.

Senator BRUNT: Mr. Coyne, I understand that means are available to Congress of the United States to allow that country to raise the ceiling on the rates of interest, and on long-term borrowing I think the present ceiling is 4¼ per cent.

Mr. COYNE: Yes.

Senator BRUNT: Supposing a bill is passed and the U.S. ceiling is raised by half of one per cent or one per cent, what effect will that have on the rates of interest in this country, if any?

Mr. COYNE: I am not sure whether it will have any effect. It may well have. The talk so far has been of removing the ceiling entirely rather than by raising it by a specific amount. The Treasury there feels that if the ceiling is moved they can then approach the market realistically and pay whatever may prove to be the proper interest rate. It might not prove to be higher than 4¼ per cent. If the long-term interest rates rise in the United States in relation to new issues, and they have already risen in the markets in relation to available issues, that might have a psychological effect. On the other hand, our interest rates have already risen more than theirs. The spread between Canadian and U.S. rates is rather wide right now, and possibly it will not get any wider.

Senator **Brunt**: Under normal conditions is there any recognized spread, for instance, of half of one per cent?

Mr. **Coyne**: No, that was an inheritance of the war. Victory bonds were put out in the two countries at a spread of one-half per cent, and that continued for a while, but there is nothing normal or necessary about it.

Senator **Brunt**: That spread has now widened.

Mr. **Coyne**: Yes.

Senator **Macdonald**: What is it now?

Mr. **Coyne**: Close to one per cent on long-term Government bonds. The main reason for the difference in interest rates is that we have a much higher need for capital in this country than they have in the United States, much more than we are able to provide out of our own savings. We have to call on the rest of the world for capital if we want to go ahead with the rate of development we are having and we have to pay higher interest rates to get it.

Senator **Brunt**: I have just one other question, and if it proves embarrassing I am not going to insist on an answer. If the reconversion loan was carried out today would it be done at the same rate?

Mr. **Coyne**: It is quite impossible to say.

Senator **Leonard**: Mr. Chairman, I would like to come back to the point that Mr. Coyne made about the field of credit that is not directly under the control of the Bank of Canada through the chartered banks. That field includes finance companies, and a good deal of credit that is extended in that field is above the rate of 6 per cent which is the maximum rate under the Bank Act. Now, I realize that the question of any revision as to that maximum rate is purely a matter for Parliament and it is not the concern of the Governor of the Bank of Canada, but I wonder whether a greater portion of the field might be available to the chartered banks and therefore more under the control of the Bank of Canada if, for example, it was made clear that the banks could enter into this field of personal loans, although one of the most important banks of Canada has felt they could not charge an interest rate that would enable them to do so. From your standpoint, would the field of control be widened if there was an ability on the part of the chartered banks to make these personal loans?

Mr. **Coyne**: No, I do not think that affects the point I was thinking of, Senator Leonard. The banks can be limited as to their total volume of loans and investments but they have complete freedom as to how they lay out their loans and investments in different categories including the personal loan field. Other institutions because they are not called banks legally are therefore not required to keep reserves in the way that banks are. These institutions can expand their total deposits and assets without limit, depending on how high an interest rate they are willing to pay and what opportunities they see for investment. I understand that some lawyers at least say that banking consists of taking money on deposit subject to a payment out by cheque. I think that is an awfully antiquated definition of banking and ought to be changed. Generally, being in the business of receiving deposits and employing the proceeds is banking even if they are not withdrawable by cheque, but only on demand over the counter, or even if they are time deposits. I think the various other savings institutions are fundamentally banks and there is a public interest in seeing how they conduct their affairs—which is very prudently, no doubt, from their viewpoint but which does effect the overall situation.

I would not want to reduce or restrict the activities of any broad group at all but as it is there is more scope for expansion of the activities of a wide group of other institutions more or less like banks at a time when the banks are being held down in an attempt to hold down the total volume of spending in the economy.

Senator Haig: Might I say a word in connection with Senator Leonard's question. When the Bank Act was being revised the last time the representatives of the Canadian Bank of Commerce, which by that time had been lending money on personal loans for years, were asked, "Do you want any legislation in order to continue on with these loans?" And they said, "No, our lawyers have advised us we are within the law." That was the situation at that time, and in the meantime I doubt if there have been any law suits, so they must have been right. I know all this because I was on the committee and I was interested.

Senator Leonard: Most of them do it now with the exception of one.

Senator Haig: Well, I see banks are advertising these personal loans and I think they have all come to the same conclusion.

Senator Lambert: Yes, all but one.

Senator Haig: At that time the banks said they were satisfied with the law as it was and said that they were going to continue the work as they have done in the past.

The Chairman: Mr. Coyne, I would just like to make this observation, that senators are not leaving the meeting because you are not interesting but rather because there is an other committee meeting going on now and some of them have to attend there.

Senator Crerar: Mr. Coyne, in your last annual report, as I recall, you had reference to the possibility of developing an inflation psychosis. In your report as Governor you referred to the possibility or the evidence or something of that kind of a growing inflation psychosis in the public mind. What did you mean by that?

Mr. Coyne: I meant that certain people, particularly investors and also others had been thinking so much about the dangers of potential inflation that they had magnified those dangers in their own minds and were acting in a way which was not justified by longer run considerations. I think to some extent at least the refusal of a number of people to buy Government bonds last year was unjustified and a reflection of exaggerated fears. Of course it is always possible to take a view of the future movement of bond prices and decide that you are going to buy later when they are cheaper, but it is always possible to be wrong in coming to such a decision. But the degree of unanimity and the degree of talk that went on in the United States and Canada alike about 12 months ago was vrey unhealthy.

Senator Crerar: In your judgment has that extended into the public mind generally?

Mr. Coyne: I do not really know. I think conditions in the bond market are very very much better now than they were 12 months ago.

Senator Crerar: Another question: Retail sales have climbed very substantially over those of a year ago. Do you think that that is due in any way to the feeling in the mind of the average citizen that prices will be higher six months from now so I had better buy what I need on credit now?

Mr. Coyne: I do not know. That may have operated to some extent, Senator Crerar, but I really cannot say.

Senator Crerar: You spoke in your earlier remarks about the considerable area outside the control of the central bank and that control had been exercised through the chartered banks on credit. That was stimulated by advertising, by business concerns telling the public to come in and buy a watch or a bit of silver or anything else and pay five per cent down and pay the balance at your leisure. In fact, I ran across one ad which said, "Buy now and pay when you like." Is that a factor in creating inflation?

Mr. Coyne: It could be, if it went to extremes.

SENATOR CRERAR: Even if it did not go to extremes, and was a moderate factor, would it contribute to inflation?

Mr. COYNE: I don't know that it would. But it would add one more straw to the camel's back, so to speak. It could create excessive total spending within the economy, and it might stand out in the public eye because it is of a different nature than ordinary cash spending.

SENATOR CRERAR: For example, the New York Stock Exchange, some 18 months to two years ago, fearing a surge in stock speculation, made a condition that 90 or 95 per cent of the purchase price of stocks had to be paid in cash, thus eliminating margin buying. Would you consider that a factor in reducing the possibility of inflation?

Mr. COYNE: I don't know how much effect that had generally on inflation. I think it had some influence in reducing the volume of speculation on the stock exchange, and perhaps holding down the level of stock prices a little lower than they might otherwise have gone. I am not too sure on that point. But it means there will not be the same necessity for forcing selling out on margin accounts when the downturn in the stock market comes, as it is sure to come.

I think the level of stock market prices, particularly in the United States, is itself a symptom of inflation psychosis, so to speak. It cannot be justified, except on the assumption that there is going to be inflation of some seriousness. For myself, I don't think there is going to be inflation of that seriousness, because I think that the work we are all doing is going to bring it under control; and I think the people who have been buying stock merely as an inflation hedge, without regard to real value and real earning power, are going to be sorry in the end they did so.

SENATOR CRERAR: That is an indication that in the public mind, at any rate, to some degree there is a fear of inflation.

Mr. COYNE: Yes.

SENATOR CRERAR: What would be the effect if, for instance, in Canada we were able to lay down a regulation that no article could be bought on time without a 50 per cent down payment?

The CHAIRMAN: You are getting into controls.

Mr. COYNE: That is a bit outside my field.

SENATOR CRERAR: I thought you might have an opinion on it.

Mr. COYNE: The effect would be to reduce the volume of sale of those goods.

SENATOR CRERAR: Do not two ideas come into conflict: one, that we must have an ever expanding economy? Therefore, our thinking is conducive to that end, and consequently if the merchants can increase their sale of goods by a 5 per cent down payment, there is a school of thought that thinks it would be good for our economy. On the other hand, does it not tend to produce the very condition that would bring about inflation?

Mr. COYNE: I perfer to say this: it may add to our total spending, and it may create a condition in which there will be an abrupt decline in total spending as soon as a recession sets in. Those who have borrowed from the future, so to speak, will not be in a position to continue their purchases at the very time when economic activity may be slowing down. So, it may add to the difficulty in the ensuing recession.

SENATOR CRERAR: That is, the glorious time we are having now may come to an end, and there will be a set-back?

Mr. COYNE: Yes, I think that is quite clear. To use an American example again, the very heavy pressure selling of automobiles on credit, and long-term credit, in 1955 had an adverse effect on automobile sales in the United States later.

Senator Crerar: Is that likely to continue in its effect, to be repeated?

Mr. Coyne: I am afraid it is. Not necessarily this year, but on future occasions.

The Chairman: Mr. Coyne, how do you feel about cities, municipalities and provinces having to go to the American market to borrow their money, and what do you think the result may be in the final analysis?

Mr. Coyne: That is something they have to decide, whether they are going to save money in the end or pay excessive costs in the end, depending on the future of exchange rates. I can't make any forecast on that.

Senator Burchill: In the meantime it is pretty hard on the exporter.

Mr. Coyne: It may be.

The Chairman: Does not this exchange rate affect the budget and profits of Canada?

Mr. Coyne: I am not sure. I dare say that individual exporters find the exchange rate cuts down their income, and it also cuts down their costs. It does work both ways. I don't think that any particular level of exchange rate is necessarily significant. Just because we call our monetary unit the dollar, does not mean that it has to always be equal to one American dollar. We might call it the pound sterling. The British pound sterling is now worth $2.80 in American dollars, but that by itself does not handicap the British exporter. It is more a question of the relationship between the selling price and cost, and the changes that may be induced in those factors by movements in exchange rates.

Senator Burchill: As an exporter to Great Britain I am piqued because I can't do business directly. I can't get my funds direct in sterling; I have to go through New York. Why is that? Why can we not do business with the Canadian dollar in relation to the pound sterling?

Mr. Coyne: You can.

Senator Burchill: Yes. But, as you say, the pound sterling has been depreciated.

Mr. Coyne: Yes.

Senator Burchill: When I sell my goods in the United Kingdom market, I naturally think I am going to get a little better price because the pound sterling is down. But the difference between the Canadian dollar and the American dollar wipes that out, and results in a loss.

Mr. Coyne: Yes.

Senator Burchill: In pre-war days we were not concerned with New York at all—at least, I don't think we were.

Mr. Coyne: I think sterling in the hands of Canadian exporters has very often been converted through New York, even in the pre-war days. It went either through London or New York. Of course, there was not a large exchange market in Canada before the war, as there is today. Apparently the exporters find on the whole it is more advantageous by a fraction of a cent to convert from sterling in New York, than to convert into Canadian dollars direct. But, it can be done.

The Chairman: Honourable senators, if there are no further questions, I would like to take this opportunity to express the thanks of the committee and of myself to Mr. Coyne for his presentation and discussion here today.

Mr. Coyne: Thank you.

—Whereupon the committee adjourned.

APPENDIX B

SUBMISSIONS TO THE STANDING COMMITTEE ON FINANCE OF THE SENATE OF CANADA WITH RESPECT TO THE THREAT OF INFLATION IN CANADA

The Trust Companies Association of Canada appreciates the opportunity offered by your invitation to make submissions in connection with the threat of inflation in Canada.

This Association is composed of thirty trust companies with about one hundred and eighty offices located in large and small centres in every province in Canada. Its members consist of practically all the companies authorized by statute to carry on a trust business in Canada. They represent, also, many thousands of clients including corporations, unincorporated companies, charitable, religious, municipal and other organizations. As part of their functions they act as executors in the settlement of estates, as trustees on behalf of beneficiaries of trusts, and as investment managers of pension funds.

Assets administered by Canadian trust companies for the public at the end of 1958 were $7,139,000,000. A substantial portion of these monies has been placed in the hands of trust companies for investment. About $820,000,000 of this amount represents savings on deposit; about $825,000,000 are the pension funds of employees and self-employed individuals who are looking to these accumulations to support them upon retirement. Altogether, about $6,320,000,000 are assets of estates and trusts, including pension trusts, held for the support of widows, children, elderly people, dependants and those who rely for support upon the funds of charitable, religious and other public welfare organizations.

One of the basic functions of Canadian trust companies, of course, is trusteeship and the conservation of assets for the support of individuals on whose behalf these monies are held. In many cases sufficient funds have been provided to maintain dependants under present economic and financial conditions. The standard of living of these dependent people would be seriously affected by further inflation and continued erosion of the value of the dollar. A large number of those now existing upon limited or fixed income could be forced to live in very greatly reduced circumstances unless additional assistance should be forthcoming from governments or individuals.

A further loss in the purchasing power of money would wipe out a large part of the dollar value of the social gains made by the Canadian people in the post-war period. The value of government old age assistance and the pensions of employees and self-employed persons will be drastically reduced with a consequent lower standard of living. A substantial inflation may well destroy the social and economic fabric of this country, and be a significant and contributing factor in a complete breakdown of our present system of democratic government and loss of individual freedom through state control. Replacement by a form of government repugnant to the vast majority of people in this country could be inevitable and freedom of enterprise cease to exist.

To avoid the danger of such an event and to help preserve our present political, social and economic system, this Association suggests that the following steps be taken:

1. Reduce government spending.
2. Balance the budget.

3. Resist irresponsible demands by various groups for social and economic schemes which result in higher taxes or require to be financed by expansion of the money supply.
4. Exert every effort to lower taxes.
5. Take vigorous steps to impress upon the nation at large the serious threat to all the social and economic gains made in recent years which may result from further inflation.
6. Urge upon industry and labour the importance of maintaining price and wage levels related to productivity.

This Association supports the views expressed in submissions made by The Dominion Mortgage and Investments Association, many of whose members are members also of The Trust Companies Association of Canada.

W. R. SCOTT,
Secretary-Treasurer.

June 24, 1959.

APPENDIX C

JUNE 29, 1959

The Honourable T. D'Arcy Leonard,
Deputy Chairman
The Standing Committee on Finance on the
Threat of Inflation in Canada,
c/o Canada Permanent Mortgage Corporation,
320 Bay Street,
TORONTO, Ontario

Dear Senator:

The Canadian Manufacturers' Association has submitted to the Standing Committee on Finance of the Senate of Canada a most important Brief on the Threat of Inflation in Canada. As a member of the Canadian Manufacturers' Association, I fully concur with the recommendations contained in the Brief. I would, however, like to add to that Brief some further thoughts on the subject of the affect of excessive wage demands on inflation. I feel that some further thoughts on this subject may be helpful, particularly in view of the statement at a previous hearing of your Committee to the effect "that the pressure for wage increases has become an independent and powerful inflationary factor has yet to be demonstrated".

In the Brief presented by the Canadian Manufacturers' Association under the heading "*Wage Costs*", it is stated: "Another serious continuing inflationary pressure in the Canadian economy arises from the use by labour unions of monopolistic power in continually forcing wage rates, and hence prices, upwards without relation to the demand-supply position of the products concerned or to the increase in the productivity of labour".

That this is so and is, in fact, the major contribution to inflation is, I believe, clearly demonstrated by our national statistics, as follows.

Between 1949 and 1958 productivity in Canada, as measured by the gross national product divided by the employed labour force, has increased from $4,485 per head to $5,625 per head in *constant* 1958 dollars, that is a physical increase in productivity over this period of 25.4 per cent.

At the same time, average weekly earnings in all manufacturing have increased from $41.71 to $66.62, or by 59.7 per cent. *Difference* 34.3 per cent.

These wages have, therefore, been increased by 34.3 per cent more than can be paid for out of increased productivity, and this difference must result in an increased cost of what is produced.

The Dominion Bureau of Statistics make each year a careful analysis of the impact of price changes on the gross national expenditure to arrive at an index which reflects, from year to year, the change in purchasing power of the Canadian dollar. These yearly price indices are termed "implicit price indices". According to these indices, prices generally in Canada, increased by 35.8 per cent between 1949 and 1958.

The increase in prices over this period bears a remarkable resemblance to the percentage of 34.3 per cent by which increased wage earnings in all manufacturing have exceeded increased national productivity over the same period.

Chart 1 shows, in graphical form, the increased wages in all manufacturing in relation to increased productivity, year by year, over the period discussed above.

Chart 2 shows, graphically, the close relationship between inflation and excessive wage increases (increases in excess of those justified by increased productivity).

Table 1 gives the figures on which these Charts are based, and the sources of these figures.

What is the outstanding conclusion to be drawn from these Figures and Charts? It is simply this: that, irrespective of the amount in dollars of wage gains won by Unions in negotiations, the real gain cannot—in the long run—be greater than the actual gain in productivity. Over the period we are reviewing, the wage increases of 59.7 per cent have been accompanied by increases in prices of 35.8 per cent, so that the real improvement in wages and salaries has been 23.9 per cent, which is about equal to the increase in productivity of 25.4 per cent. (Since the major part of this increase in productivity is due to the provision by Management of new and improved capital equipment, labour has done very well to take such a lion's share of the improvement in productivity).

You might argue that if the real gain in our standard of living (the purchasing power of our wages) will never be greater than our gains in productivity, then what does it matter if we continue to increase wage and salary levels at a faster rate than we increase productivity. The end result is the same, and our wages will always increase in dollars a little faster than general prices increase, and our net gain will continue to be about equal to our gain in productivity. This is the policy of steady inflation that is preached these days by quite a few people. The great fallacy in this argument lies in the fact that it *ignores the effect of such a policy on the rate at which it is possible to increase productivity,* which is the only effective provider of increased real wages and standard of living.

Productivity (the physical production per man employed) is dependent on three factors:—

(1) The methods and capital equipment furnished the worker for production;

(2) The worker's effort and skill;

(3) The volume of the market available for the product (that is, the amount of the product that can be sold at a price which will cover the cost of producing it).

The Canadian economy is such that the last factor is, unquestionably, the controlling factor on which increased productivity depends and on which, as a result, an increased standard of living depends.

Canada's economy is based on a comparatively high volume of exports, (19.7% of the G.N.P. in 1957), mainly of its primary and agricultural products. Unfortunately, however, its exports have to compete with the rest of the world on price and if its costs are too high, however much shouting we may do, we are just not going to sell our exportable surpluses and *less and less employment will be available from our exporting industries.*

At the same time, to assist its exports of primary and agricultural products, Canada has evolved over the years a very low tariff protection to its secondary manufacturing industries, which today have become a far greater potential provider of jobs than all the primary and agricultural producers put together.

The secondary manufacturing industry has, therefore, to compete in its own internal market with producers from all over the world, with very little protection. To the extent that our wage levels are excessive in relation to the lowest of our competitors, we shall lose a larger and larger proportion of our own market, to say nothing of any foreign markets we may have had in the past. This trend has been going on for some time and is reflected in the declining percentage of the Canadian market captured by Canadian secondary industries, particularly in durable goods. As long as this situation continues, we will also be faced with *less and less employment available from our secondary manufacturing industries.*

The combination of the loss of export market volumes and the loss of internal market volumes, partly by reason of higher wages than we can afford, and partly by reason of reduced markets over the last two years of recession, is clearly reflected in Chart 1.

This Chart demonstrates what has caused the price increases during the recent year and a half or two-year recession which is that, while wages have increased 10.5% over this period, productivity declined 5.8%. This productivity did not decrease because of lack of effort on the part of the worker, or because of lack of capital equipment provided by Management to make increased productivity possible. It decreased because of the decrease in the available market. Since wages did not decrease, but increased substantially during that period, it is quite obvious that costs, and consequently prices, had to increase during this period of recession. This clearly illustrates the importance of volume of market on productivity.

There is an old argument that wages can be raised without affecting prices, if we simply cut down the returns to capital. How much scope is there for such action in Canada?

Few people realise that most of this country's national income comes in wages and salaries and only a little from dividends, returns and so forth. If we examine the figures published by the Dominion Bureau of Statistics, we find that in 1958 the total of all personal incomes amounted to $21,435 millions (excluding Military Pay and Allowances and Transfer Payments). Of this sum, $18,897 million was received in the form of wages and salaries, net income of farm operators from farm production and net income of non-farm unincorporated business. That is $18,897 million, about 8/9ths of the total took the form of income from effort.

The remaining 1/9th, $2,538 million, was "unearned" income in the form of interest, dividends and net rental income. Here, in this remaining 1/9th is the only room for enlarging wage payments and shrinking dividends. By raiding it wage earners could produce little benefit, and would cause themselves tremendous damage.

Summing up, the fact I have quoted would seem to indicate:—

(1) As long as we allow our wages and salary increases to exceed our gains in productivity, we will continue to have inflation.

(2) As long as we continue to have inflation, we will continue to lose market volumes which, in turn, will reduce gains in productivity on which, in the last analysis, increases in real wages must depend.

(3) I would venture to say that, if over the last decade we had been able to keep our dollar wage increases within our rate of increasing productivity, the purchasing power of our dollar would have remained stable. At the same time, we would have had a much greater share of the markets available to us, so that productivity would have increased at a greater rate than it actually has, and *real* wages, as measured by the purchasing power of the wages received, would have been higher; we would have had no unemployment problem and we would have been able to justify a far higher rate of immigration than has, in fact, occurred, and which is so essential to expand the economy of this country.

It would, therefore, seem that the only real and lasting cure for inflation is to assure that future wage and salary increases are kept within the range of productivity increases. This will not be achieved as long as labour unions are permitted to use monopolistic power to force wage increases in excess of productivity increases. Consequently, suitable labour legislation is an essential to restore a more equitable balance to the bargaining table.

Unless, in the future, industrial management and labour leadership can resolve their wage negotiations within these basic principles, it may well be that the natural economic forces, which none of us can defy with impunity, will solve our problems for us by further inflation, further loss of markets and eventual bankruptcy and widespread unemployment.

In case any one may consider that this last statement is an exaggeration, I would refer him to the attached graphic presentation entitled "MAKING THE WHEELS TURN". This is from a recent publication of the National Industrial Conference Board of the United States in connection with a study of that country's economy in relation to world trade. This particular presentation compares, for all the leading nations of the world with the exception of Russia:—

(1) the rate of increase of fixed investment between the years 1948 and 1953, and between the years 1953 and 1957;

(2) the rate of growth of the gross national product per capita between the years 1948 and 1953, and between the years 1953 and 1957;

(3) the fixed investment as a percentage of the gross national product for the year 1957.

The object of this particular presentation is an attempt to answer the question: "To what extent can fixed capital investment be regarded as a prime mover in national economies. Economists maintain that if a relatively large part of current output is devoted to building up industrial plant and equipment, national product (or national welfare per capita) will be greater—after a sufficient lapse of time to permit these investments to result in increased output of goods and services."

With this in mind, and with the Chart in hand, let us examine the performance of Canada in relation to the other major nations of the world. In the period

1948 to 1953, as well as in the period 1953 to 1957, the increase in fixed investment in Canada has been at a somewhat greater rate than the average of the other nations. Furthermore, in the year 1957, the percentage of the gross national product expended in Canada in fixed investment was the *highest of all the principal nations.*

In spite of this, although the gross national product per capita grew between 1948 and 1953 at a rate approaching the average of all the nations listed, between 1953 and 1957 the growth in the gross national product per capita in Canada has been the *lowest of all the nations listed*—amounting, over this period, to the very depressing figure of only 1%. This compares with an average growth for the other nations listed of the order of 15%. For a young country with the immense growth potential of Canada, this is a fact that no Canadian can afford to accept, other than with the gravest concern.

The reason for this stagnation is that, over this period, we in Canada have been trying to pay ourselves wages, salaries and social benefits in excess of what we can afford. In the process, we are successfully pricing ourselves out of our own internal markets, as well as the world markets, and so losing volume and consequent productivity. A continuation of this trend can only lead to disaster.

Very truly yours,
H. B. Style,
President,
John Inglis Co. Ltd.

Chart I Wages - Productivity

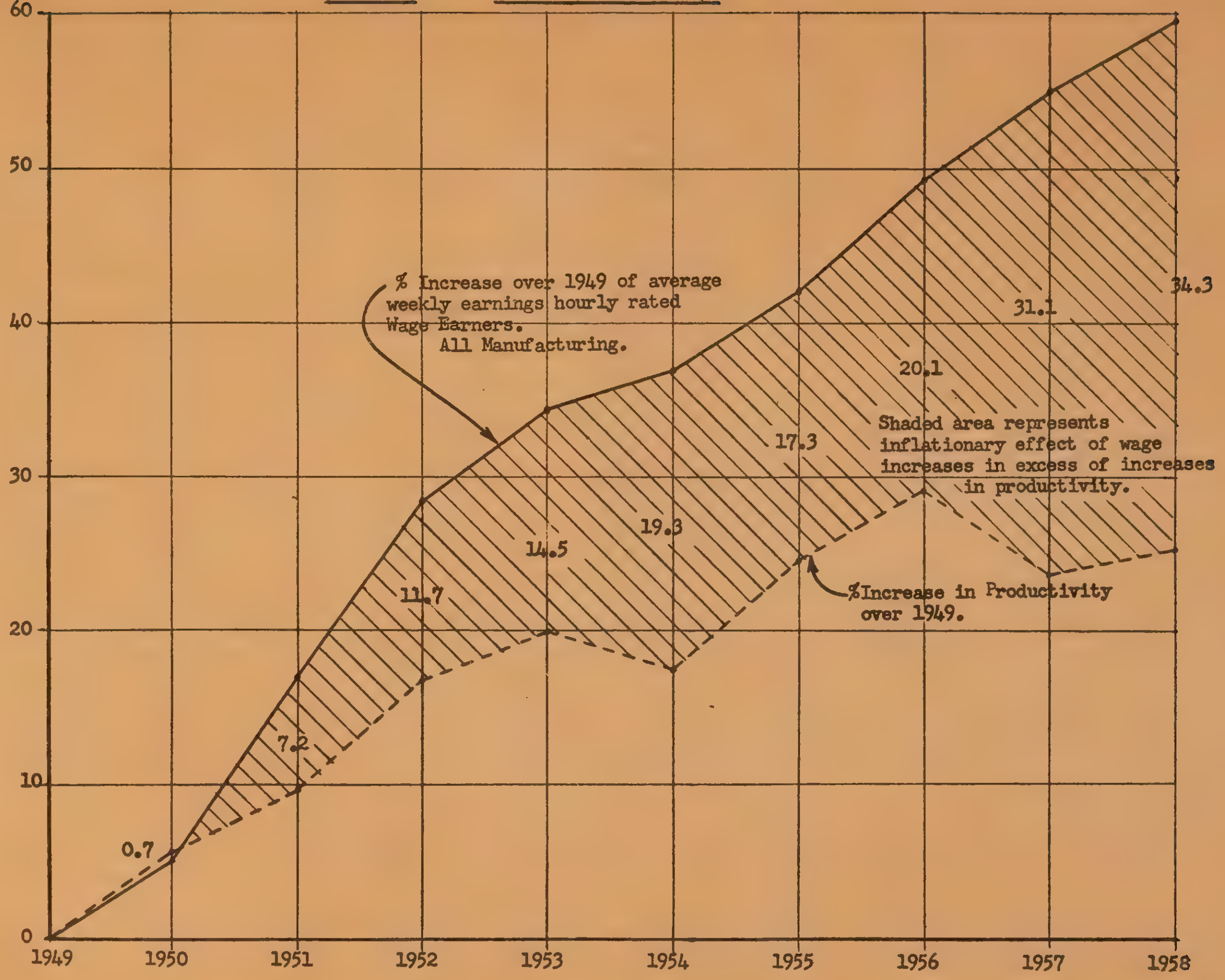


Chart 2 Inflationary Effect of Wage Increases in Excess of Increased Productivity

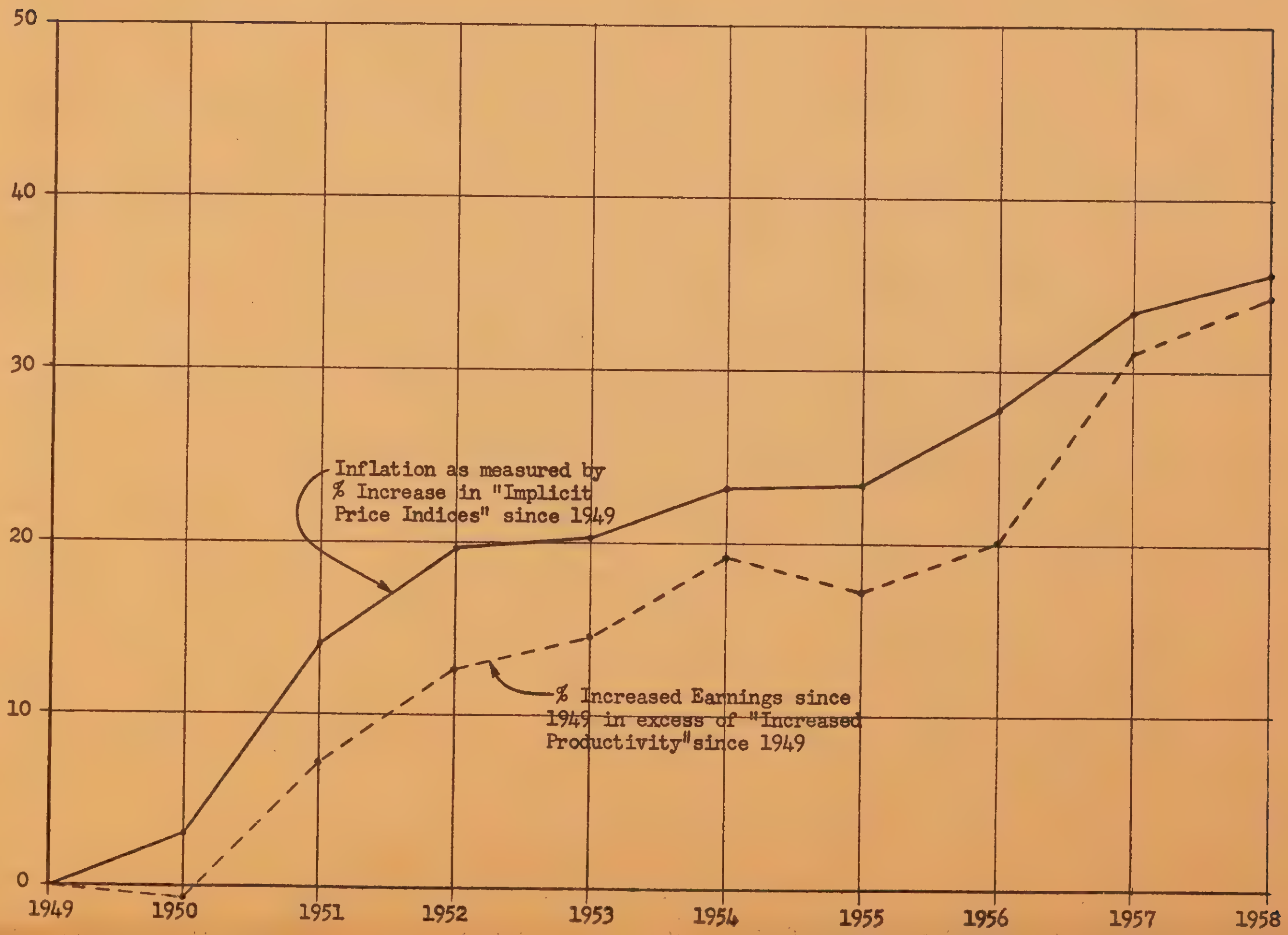
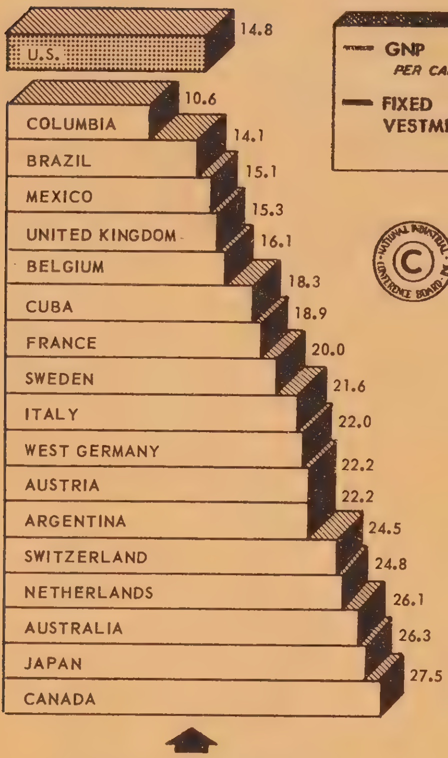


TABLE 1

	(1) G.N.P. in Constant $ of 1958 ($ Millions)	(2) Nos. of the Employed Labour Force (Thousands)	(3) Productivity Constant 1958 S per Head of Employed Labour Force 1 ÷ 2	(4) Av. Weekly Earnings Hourly Rated Wage Earners All Manufacturing	% Increase over 1949 (Column 3)	% Increase over 1949 (Column 4)	Inflation in Canadian prices since 1949 as measured by the D.B.S. Implicit Price Index
1949	$22,194	4,948	$4,485	$41.71	0%	0%	0%
1950	23,721	4,997	4,747	43.82	5.8%	5.1%	3.1%
1951	25,187	5,111	4,928	48.82	9.8%	17.0%	14.1%
1952	27,197	5,186	5,244	53.62	16.9%	28.6%	19.8%
1953	28,238	5,246	5,383	56.09	20.0%	34.5%	20.3%
1954	27,413	5,194	5,278	57.16	17.7%	37.0%	23.2%
1955	29,817	5,327	5,597	59.25	24.8%	42.1%	23.3%
1956	32,035	5,526	5,797	62.27	29.2%	49.3%	27.9%
1957	31,921	5,746	5,555	64.64	23.9%	55.0%	33.6%
1958	32,184	5,722	5,625	66.62	25.4%	59.7%	35.8%

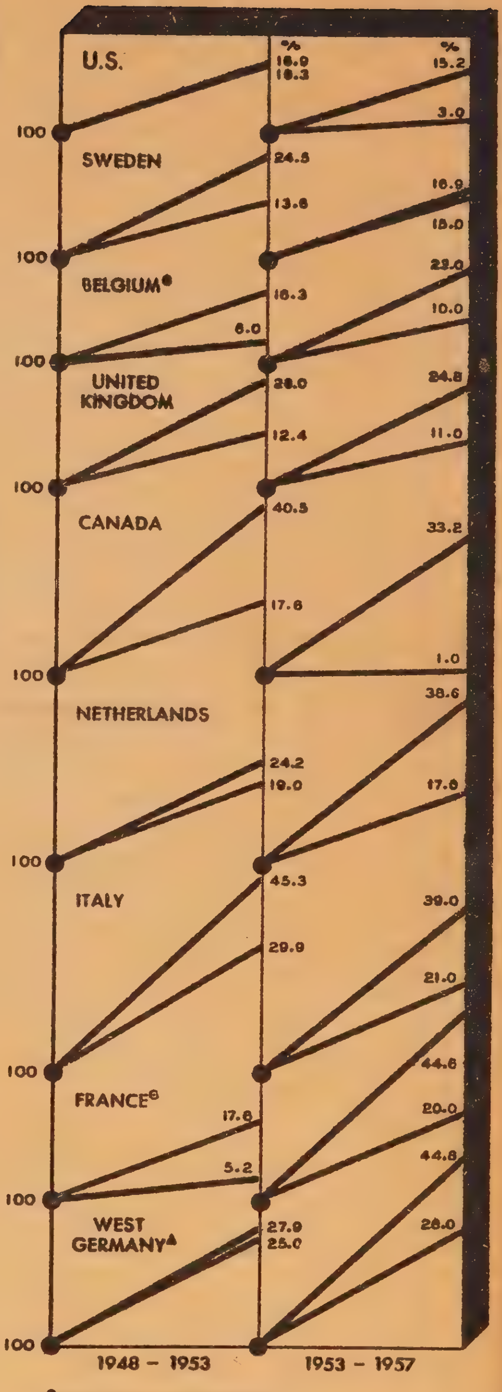
SOURCES: Dominion Bureau of Statistics "National Accounts"
"Canadian Statistical Review"

MAKING THE WHEELS TURN



FIXED INVESTMENT AS PER CENT OF GNP, 1957

FIXED INVESTMENT & PER CAPITA GNP
PERCENTAGE CHANGES
CONSTANT UNITS



●1949–1953, FIXED INVESTMENT ONLY
©1949–1953 ▲1950–1953

Finance, standing Committee on (Senate), 1959

Second Session—Twenty-fourth Parliament
1959

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING COMMITTEE ON
FINANCE
on the Threat of Inflation in Canada

No. 11

TUESDAY, JULY 14, 1959

THE HONOURABLE CLARENCE V. EMERSON,
Chairman

REPORT OF THE COMMITTEE

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

THE STANDING COMMITTEE ON FINANCE

Chairman: The Honourable Clarence V. Emerson.

The Honourable Senators:

*Aseltine
Baird
Barbour
Beaubien
Bouffard
Brunt
Buchanan
Burchill
Campbell
Choquette
Connolly
(*Halifax North*)
Connolly
(*Ottawa West*)
Crerar
Croll
Dupuis
Emerson
Euler
Farris
Gershaw
Golding
Haig
Hayden
Higgins
Horner
Howden
Isnor
Lambert
Leonard
*Macdonald
McKeen
Molson
Paterson
Pearson
Petten
Power
Pratt
Quinn
Reid
Robertson
Roebuck
Savoie
Smith
(*Queens-Shelburne*)
Stambaugh
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vein
Wall
White
Woodrow—50.

**Ex officio* member.

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, Tuesday, April 28, 1959.

"Pursuant to the Order of the Day, the Senate resumed the postponed debate on the motion of the Honourable Senator Wall, seconded by the Honourable Senator Leonard:

That the Standing Committee on Finance be instructed to study the threat of inflation in Canada;

That the Committee have the authority to send for persons, papers and records, and to report from time to time.

After debate, and—

The question being put on the motion—

The Senate divided and the names being called they were taken down as follows:—

CONTENTS

The Honourable Senators

Baird
Basha
Beaubien
Bois
Boucher
Bradette
Connolly (*Halifax North*)
Connolly (*Ottawa West*)
Crerar
Croll
Dupuis
Euler
Farquhar
Gershaw
Golding
Grant
Hodges
Hugessen
Isnor
Jodoin
Lambert
Lefrançois
Leonard
Macdonald
McGrand
Petten
Pouliot
Pratt
Reid
Robertson
Roebuck
Savoie
Smith (*Kamloops*)
Smith (*Queens-Shelburne*)
Stambaugh
Taylor (*Westmorland*)
Vaillancourt
Veniot
Wall
Woodrow—40.

NON-CONTENTS

The Honourable Senators

Aseltine
Brunt
Buchanan
Emerson
Gladstone
Haig
Higgins
Horner
MacDonald
Methot
Pearson
Quinn
Sullivan
White—14.

So it was resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, July 14, 1959.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 9.30 a.m.

Present: The Honourable Senators Emerson, (*Chairman*); Aseltine, Buchanan, Choquette, Croll, Golding, Haig, Higgins, Isnor, Macdonald, Robertson, Taylor (*Norfolk*) and Turgeon.—13

In attendance: Dr. John J. Deutsch, Economic Consultant.

Consideration of the order of reference of April 28, 1959, was resumed.

A draft Report, submitted by the Chairman, was read and adopted.

Consideration of the order of reference was concluded.

At 10.45 a.m. the Committee adjourned to the call of the Chairman.

ATTEST.

John A. Hinds,
Assistant Chief Clerk of Committees.

REPORT OF THE COMMITTEE

TUESDAY, 14th July, 1959.

The Standing Committee on Finance, to whom was referred the instruction to study the threat of inflation in Canada, reports as follows:—

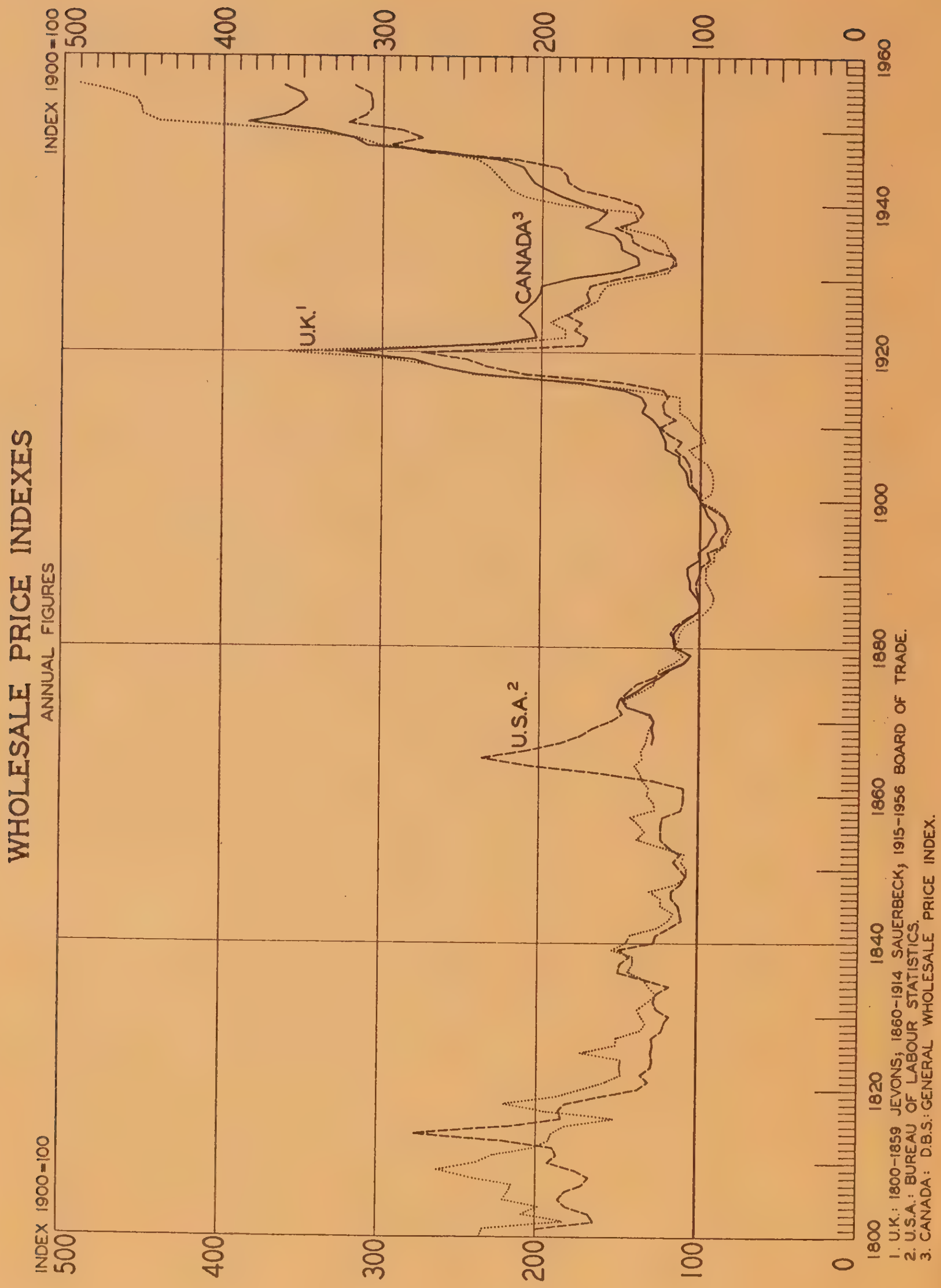
In recent years the problem of inflation has become a major concern of public policy throughout the Western World. An outstanding authority stated to your Committee that "Inflation has replaced recession as the major topic of business concern on this continent". The nature of this problem, its cure, and its threat for the future have become matters of urgent interest and widespread discussion. The information submitted to your Committee has indicated that these apprehensions have arisen because of the persistent rises in prices and costs and the consequent erosion in the value of money which has occurred during the post-war period; the continuing increases in the cost of living during the recent recession; and the obvious reluctance which has developed on the part of the general public with respect to the investment of savings in long-term fixed dollar obligations, with the result that governments in particular have encountered increasing difficulties in financing their requirements.

It was against this general background that your Committee proceeded to carry out its instructions "to study the threat of inflation in Canada". The Committee sought the assistance of both competent individual authorities and of representative groups in the Canadian community. Within the limited time available the Committee was able to arrange 10 public meetings. At its first such meeting the Committee heard from a distinguished economist, Professor F. A. Knox of Queen's University who presented an explanation and board analysis of the nature of inflationary forces. At its subsequent meetings the Committee received the views of leading representatives of industry, commerce, finance, labour, agriculture, and of the Governor of the Bank of Canada. In all, the Committee heard from 44 witnesses. Their names, positions, and the organizations which they represent are shown in Appendix A.

The submissions which were received were of invaluable assistance to the work of the Committee. All of the presentations were prepared with special care and were the result of much thought and effort. They were constructive, frank, and reflected the great importance which was being attached to the subject of our enquiry. Consequently, the evidence placed before the Committee as published in its proceedings does itself constitute a most valuable contribution to the discussion and elucidation of a problem of great social and economic significance to the future welfare and progress of our country.

In particular, the views and information which were presented have enabled the Committee, within the limited time available, to submit some preliminary, but, useful findings. Clearly, there has not been sufficient time to pursue many of the intricacies and implications of so complex and difficult a subject. Consequently, the Committee will confine itself in this report to a brief consideration of certain basic issues of vital importance about which there was some consensus of view among the witnesses who came before us. These issues relate to such fundamental matters as the question concerning the historical and long-term inevitability of inflation, the nature and effects of the post-world War II rise in prices, the compatibility of the aims regarding the maintenance of high levels of employment and the preservation of reasonable stability in the value of money, the doctrine of creeping inflation, and finally the existing situation and psychology concerning the threat of inflation.

CHART I



WHOLESALE PRICE INDEXES

ANNUAL FIGURES

1. U.K.: 1800-1859 JEVONS; 1860-1914 SAUERBECK; 1915-1956 BOARD OF TRADE.
2. U.S.A.: BUREAU OF LABOUR STATISTICS.
3. CANADA: D.B.S.: GENERAL WHOLESALE PRICE INDEX.

Inflation not Inevitable

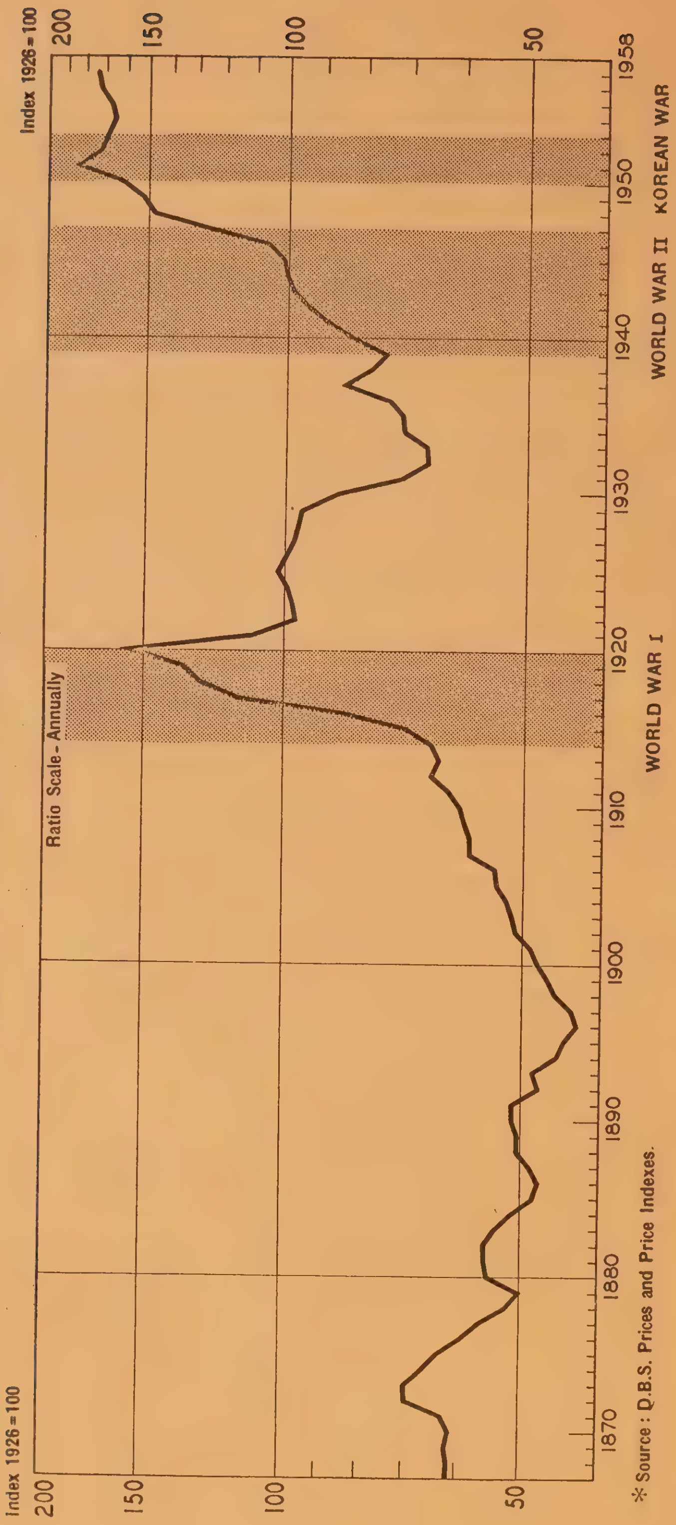
It is not necessary, before entering upon a discussion of this subject, to attempt to present a highly sophisticated definition of inflation. For all practical purposes inflation may be defined as a condition in which there is a persistent rise in the general level of prices. There are some who argue that inflation, defined in this way, has existed throughout the long sweep of history and that this historic trend can be expected to continue its inevitable course in the future. In support of this contention these observers point to the rise which they claim has taken place in the indexes of prices over the last several centuries. However, a close examination of the actual movements of prices in the United Kingdom, the United States and Canada does not support such a sweeping generalization. Professor Knox has explained that "In Great Britain and the United States, for instance, the record since 1800 shows great and long-continued swings in the general wholesale price level. Yet over that long period their indexes of wholesale price levels show no clear trend; increases have, in time, been offset by decreases . . . the price level (In Great Britain) in 1940 was almost exactly where it was in 1840, and yet there has been considerable growth in output over that period." These movements in the general levels of prices in the three countries may be observed in Chart I. It will be seen that over the past 150 years there has been no persistent trend. There have been long periods of relative stability and of decline as well as sharp upward movements. It is apparent that the major upswings were associated with extraordinary events, especially wars. It is strikingly evident that the effects of the Napoleonic Wars, of the American Civil War and of World Wars I and II have been the prime causes of all the pronounced increases in the price levels which have occurred.

Chart II shows the general movements in Canadian wholesale prices since 1867. From that date to the present the index has increased by close to three times but it is clear that the disturbances of wars have been the principal factor in this rise. Had the index risen consistently by an average of as little as 2% a year over the entire period the index would have been multiplied by more than six times instead of less than three. In fact, the sharp wartime increases have been offset in considerable degree by long periods of decline or relative stability. In evidence presented to the Committee by Mr. James Muir, President of the Royal Bank of Canada, it is pointed out that "...over the 33 year period from 1867 to 1900 we had an annual rate of growth *in volume or "real" terms*, of almost 3 per cent, while the consumer price index declined 14 per cent. In the period 1920-29 we had an annual average rate of growth *in real terms* of 3½ per cent, but the consumer price index declined 16.9 per cent. (Almost completely stable prices prevailed from 1922-1929 . . . *In real terms*, therefore, inflation is not necessarily associated with periods of economic growth."

Historical evidence does not support the contention that inflation has been a necessary and inevitable condition of economic progress either in Canada, the United Kingdom or the United States. Nevertheless, it is now being suggested in some quarters that the circumstances of the present-day economic system and of modern society are such that a desirable or adequate rate of economic growth cannot be maintained without at least a moderate measure of continuing inflation. None of the witnesses which appeared before the Committee believed that inflation was inevitable, necessary, or desirable. Indeed the spokesman for large representative groups in the community expressed quite the contrary view. The Canadian Manufacturers' Association stated that "We do not accept the philosophy that inflation is either inevitable or desirable and we believe that the will to prevent inflation must be kept vital." The Railway Brotherhoods informed the Committee that "Our position (and we repeat this because here especially we want to be sure that we are not

CHART II

INDEX OF WHOLESALE PRICES, 1867-1958 *



* Source: D.B.S. Prices and Price Indexes.

misunderstood) is not to defend supposed virtues in inflation or to advise against the use of inflationary controls. On the contrary, we are quite ready to endorse both the goals and the methods of a well considered anti inflationary programme." The Canadian Federation of Agriculture expressed the hope that your Committee would "... emphasize that public and private activity in this country must be based on the premise that the threat of continuing inflation is one that can be largely removed by appropriate policies and programs, monetary, fiscal and industrial—and that such policies should be consistently followed."

It has been pointed out that Canada is always subject to powerful influences from abroad, particularly from the United States. It has been argued that if there is inflation in that country it will inevitably be communicated to Canada. While the Canadian economy is likely to continue to be strongly effected by events in the United States, we are not helpless and we could easily do worse. The Governor of the Bank of Canada stated his view to the Committee that "we should at the very least try to prevent ourselves adding domestic causes of inflation or deflation to what causes are affecting us from abroad... if these price movements abroad are very broad and large in magnitude, that we would to some extent try to insulate ourselves and not suffer as big a price rise or price decline in Canada, expressed in Canadian currency".

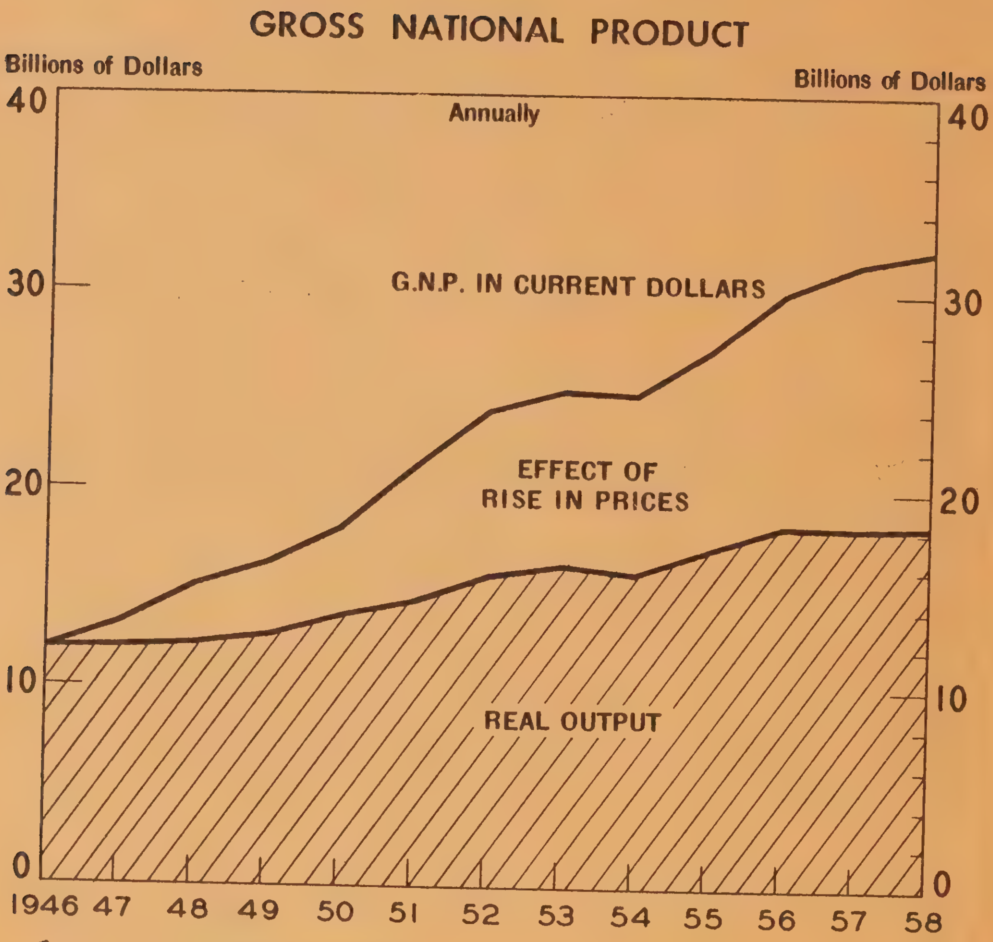
Nature and Effects of Post-War Rise in Prices 1946-58

One of the factors in the concern over inflation arises from the experience of the post-war years during which a considerable upswing in prices occurred, an upswing which exceeded that which took place during the war itself. Canada's experience was not unique—it was a phenomenon which occurred in most other countries. The rise in prices in Canada during the post-war period was somewhat greater than in the United States but less than in the United Kingdom. On the other hand the post-war period in Canada was one of rapid economic progress and generally high levels of employment. The developments during this period were summarized concisely in the submission of the Canadian Chamber of Commerce. "From 1947 (the first full year after price controls were lifted in 1946) through 1958 the Consumers' Price Index in Canada increased 47.5 per cent or $3\frac{5}{8}$ per cent per annum, compounded. During this 11-year period, however, the Canadian economy experienced dynamic growth on a scale seldom equalled by any country. Population increased 35.8%, G.N.P. 133.8%, employment 18.1%, and unemployment as a percentage of the working force averaged 3.3% per annum. Gross capital expenditures of all kinds totalled $65.7 billions, or, an average 23.0% of G.N.P. per annum."

Chart III shows the growth in the total physical volume of Canadian production, the growth measured in money, and the effect of the rise in prices over the period 1946-58. In money terms Gross National Production (G.N.P.) rose by an average of 8.7% per annum but more than half of this rate of increase was the result merely of higher prices on the actual goods and services produced.

However, even during this period there was not a relentless and persistent trend. As was emphasized in the submission of the Canadian Congress of Labour there were three district periods of inflationary pressure; from 1946-1948 (release of long pent-up consumer demand), from 1950 to 1951 (Korean war and re-armament), and from 1955 to 1957 (investment boom). In the intervening years, some of which were periods of business recession, prices were reasonably stable. While special factors were present during the periods of sharpest upswing these special factors would not have brought about the

CHART III



Source: D.B.S. National Accounts.

results they did had it not been for certain underlying conditions which produced a distinct inflationary bias over the period as a whole. The underlying factors most frequently stressed in the evidence placed before the Committee were the undue expansion in the supply of money and the substantial increase in government expenditures.

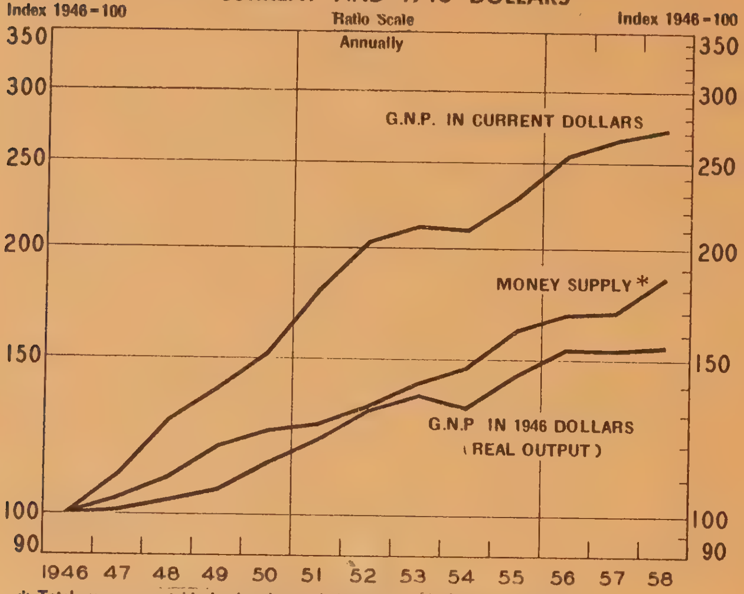
Chart IV shows the relationship which has existed between the increase in the supply of money and the growth in real production. It will be seen that throughout the period the supply of money ran ahead of the rise in the actual output of goods and services in relation to 1946—a year in which the money supply had already been enlarged tremendously as a result of the exigencies of war finance. Furthermore, the effects of the increasing money supply were greatly enhanced by the rise which has occurred in the rate of turnover of bank deposits, as indicated in Chart V. During the early part of the post-war period the expension of the money supply was the result largely of the so-called "easy money" policy which was designed to promote economic expansion and to help avoid a depression which was widely feared. In the most recent period the expansion of the money supply was the consequence, primarily, of the problems arising out of the financing of the federal government's cash deficit and the condition of the public debt. Mr. J. Douglas Gibson, General Manager of the Bank of Nova Scotia stated his opinion to the Committee that "... the experience of the post-war period, including the recent recession and present recovery, suggest that we have probably been too concerned about the risk of depression and not sufficiently impressed with the strength and vitality of our economic system. The record suggests that we should have put more emphasis on defending the value of money ... It is, of course, fundamental that the money supply should be kept in hand because if the money is not available it simply is not possible for prices to keep rising."

The inflationary movements in prices and costs during the post-war period has had very uneven effects on different groups and industries in the country. Indeed, these disparities which have become increasingly apparent are one of the important causes of the present concern over the prospects for the future. A few of the more important of these disparities are illustrated in Charts VI, VII and VIII. It will be seen that wage earners in manufacturing achieved a substantial increase in money earnings between 1946 and 1958 (135%) but a large part of this increase was offset by the rise in the cost of living (61%). Neverthless wage earners in manufacturing received an increase in *real* income of about 46% over the period. This increase in *real* income, however, compares quite closely with the rise in real output per man-hour in manufacturing with the result that wage-earners as a whole in this large industry have obtained increases in real earnings approximately in line with advances in productivity (see Chart IX). It will be noted that total salaries and wages paid in Canada have risen in a favourable relationship to corporate profits and dividends over the period as whole (see Chart X).

In agriculture, the increase in the average net money income per farm operator was almost completely offset by the rise in the cost of living with the result that the farmer, on the average, has not shared in the substantial growth of total real income for the country as a whole. Mr. W. J. Parker, President of Manitoba Pool Elevators stated in his submission to the Committee "We are concerned with the fact that agriculture in general and prairie agriculture in particular is not sharing commensurately in the national economic fortunes. We note that price changes since 1951 have largely been adverse for agriculture. Farm prices generally declined, while non-farm prices rose, or there was a disproportionate overall price rise unfavourable

CHART IV

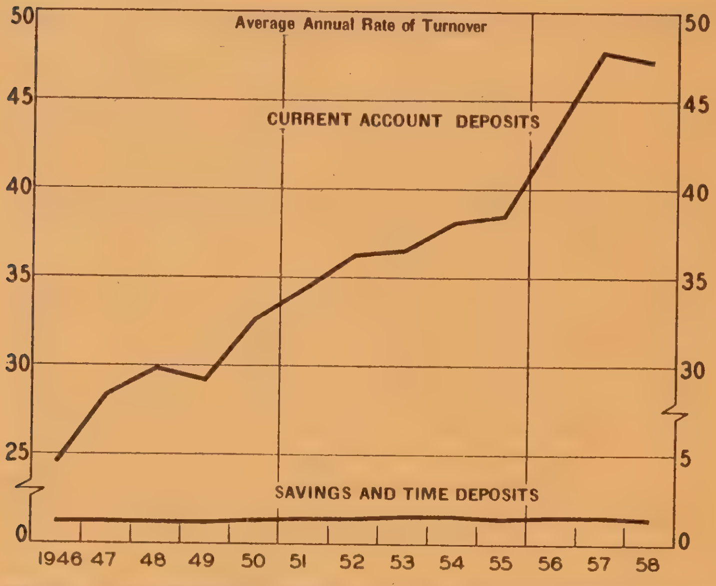
MONEY SUPPLY COMPARED WITH G.N.P. IN CURRENT AND 1946 DOLLARS



* Total currency outside banks plus total chartered bank deposits (less float). Includes Govt. of Canada deposits at the chartered banks.

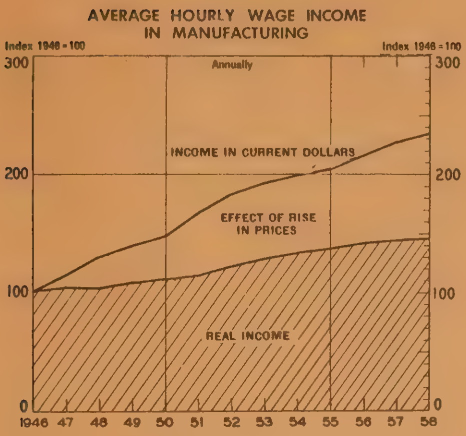
CHART V

VELOCITY OF CIRCULATION OF CHARTERED BANK DEPOSITS



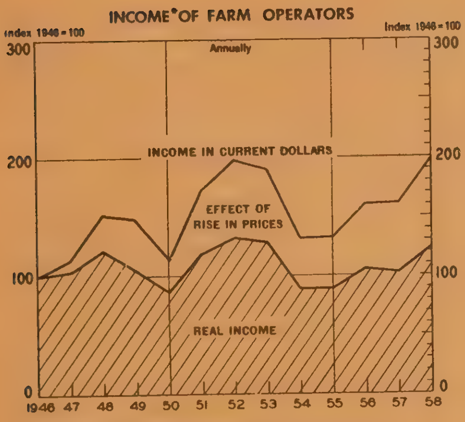
Sources: D.B.S. Cheques Cashed in Clearing Centres and Bank of Canada Statistical Supplement.

CHART VI



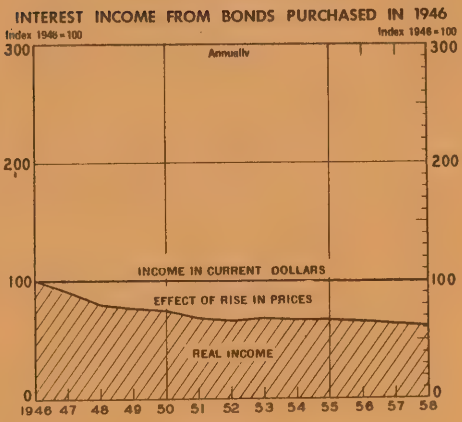
Source: D.B.S. Hours and Hourly Earnings.

CHART VII



* Average net realized income per farm operator.
Source: D.B.S.

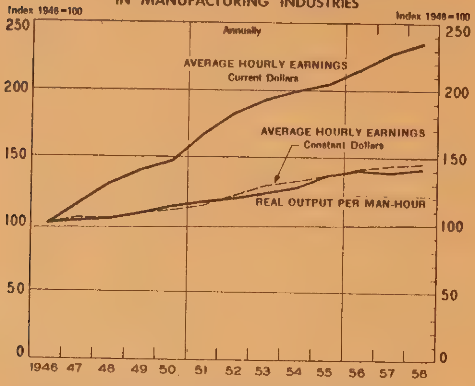
CHART VIII



Real Income calculated by deflating money incomes with D.B.S. Consumer Price Index.

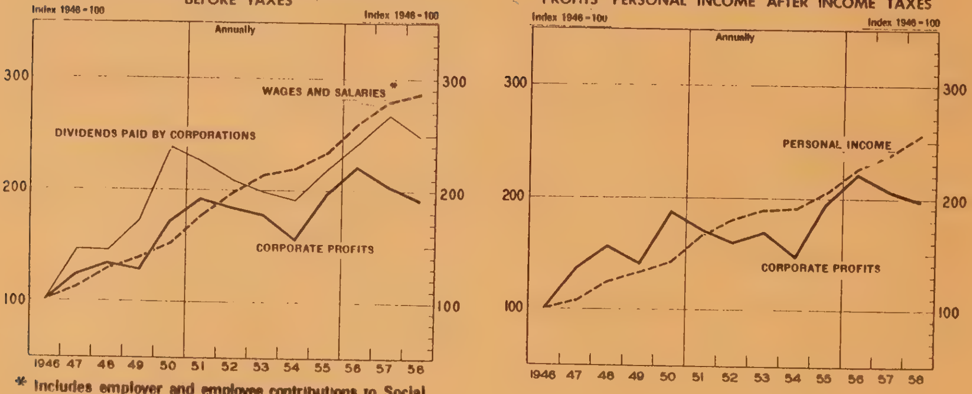
CHART IX

HOURLY EARNINGS AND REAL OUTPUT IN MANUFACTURING INDUSTRIES



Sources: D.B.S. Man Hours and Hourly Earnings.
D.B.S. Revised Index of Industrial Production.

CHART X


PROFITS, DIVIDENDS, WAGES AND SALARIES BEFORE TAXES

PROFITS PERSONAL INCOME AFTER INCOME TAXES

* Includes employer and employee contributions to Social Insurance and government pension funds

Source: D.B.S. National Accounts, Income and Expenditure.

to agriculture, producing the commonly known 'cost-price squeeze' for farmers . . . It would appear that inflation has caused the agricultural industry to receive less than a reasonable share of the national income."

Important parts of the vital Canadian mining industry have been similarly affected. Mr. V. C. Wansbrough explained in his brief on behalf of the Canadian Metal Mining Association that "The mining industry affords an interesting example of how inflationary trends operate, because within the industry we have two types of operation, one type of operation where the price of the product is fixed, and has been fixed, not only for the ten-year period under review but for the past twenty-five years, viz., gold mining, and a type of operation where, as is most general in industry, the price of the product fluctuates with market conditions of supply and demand . . . vast sums of risk and development capital are constantly required and constantly at work. . . . what at a lower level of operating costs is profitably minable ore has, under the impact of inflationary cost trends, to be written off as waste rock, and usually for good. Both these factors render the mining industry highly susceptible to inflationary pressures. . . . From the point of view of the mining industry, the important factor is rather the steady trend of cost increases over the last ten years."

Chart VIII illustrates the substantial decline (nearly 40%) which has taken place over the post-war period in real value of incomes and investments which were fixed in money terms in 1946. The groups affected by this loss in real value, averaging 3.8% per year, include bondholders, owners of mortgages, pensioners, owners of life insurance policies, owners of savings accounts in banks etc. The number of persons included in these groups is very large. The Committee was informed in the submission of the Canadian Manufacturers' Association that there are "between 1.75 million and 2 million persons covered by employee pension plans; 9.5 million individual savings accounts in the chartered banks; over 2 millions owners of Canada Savings Bonds." Mr. A. R. Poyntz, President of the Canadian Life Officers Association, told the Committee that "More than eight million Canadians owned $38.6 billion of life insurance at the end of 1958." The Investment Dealers Association in their submission to the Committee estimated that "At the end of 1958 there were outstanding some $24.1 billion of Canadian bonds, an estimated $9 billion of mortgages, and $6.8 billion of personal savings deposits . . . a total of $39.9 billion . . ." The size of these figures serves to give some indication of the substantial losses which are brought about by the decline in the real value of money, and of the large number of people who are affected. Of course, the losses of the investors accrue to the benefit of the debtors. The difficulty is that in large part these are not the same persons. In other words the erosion in the real value of money has, over a period of years brought about a very considerable re-distribution of income, not as the result of deliberate policy, taxation, or productive effort, but, as the silent outcome of the subterfuge of inflation.

Another effect of the post-war inflation most frequently mentioned by witnesses before the Committee was the impact of rising prices and costs upon Canada's competitive position in the international trading world. A number of important Canadian exporting industries have, for one reason or another, found it difficult or impossible to adjust their export prices in line with rising prices and costs at home. The Canadian Chamber of Commerce described the position to the Committee in this way—"Thus import competition has been accentuated by costs rising more rapidly in this country. Moreover, some of our exporters are meeting increasingly stiff competition, in part from countries where the tempo of inflation has been less pronounced, thus weakening our terms of trade."

This discussion of the nature and effects of the post-war inflation in Canada is by no means complete, nor is it exhaustive in its analysis. It is intended merely to be illustrative of some of the major dislocation, inequities, and economically disruptive disparities which result from a prolonged and substantial decline in the value of money. Inevitably, the heritage of the immediate past pervades the problems of the present. Hopefully, also, it should hold lessons for the future.

The Compatibility of Economic Goals

The experience of the post-war years, a period of dynamic growth and generally high levels of employment in an environment of rising prices has led to some questioning as to whether the socially desirable aims concerning high levels of employment, an adequate rate of economic progress, and the maintenance of reasonable stability in the value of money are compatible with each other. Most of the witnesses which appeared before the Committee referred to this important question and expressed the definite and unequivocable view that these basic objectives of public policy were not only mutually consistent and compatible but that in the end not any one of them could be accomplished without the others.

The submission of the Canadian Life Officers Association stated that "The main objectives of Canadian policy should be a relatively high level of employment and reasonable stability of the currency. The life companies believe that these two objectives are not incompatible. In fact, the companies believe that if these twin objectives are not given equal weight in the formation of policy and in its implementation, Canada will fall short of the sustained economic growth which could be achieved." The Executive Council of the Canadian Chamber of Commerce stated that "It is of the opinion that the objective of non-inflationary growth over a period of years while difficult is not impossible of attainment. It further believes that steady economic growth is so important to Canada that every sound method for encouraging it should be employed." Professor Knox gave his opinion that "... very few economists will be found, however, to argue that our policy choice lies between full employment plus sizeable price increases, on the one hand, and price stability plus stagnation in the national output on the other ... Our policy objectives should ... aim at long run stability in the price level ... Provided that the economic system retains its competitive and flexible nature and movements of the price level are kept within reasonable bounds, fluctuations of the index of prices below as well as above the long-run average position are not incompatible with high levels of employment and great growth in national output."

The representatives of labour unions who made submissions to the Committee agreed that a "stable or reasonably stable" price level was a desirable goal of policy provided that the concern for price stability did not outweigh or obscure what they regarded as the more important issues of the level of employment and the rate of growth of the economy. This attitude emphasizes the importance of pursuing at one and the same time the twin goals of high levels of employment and reasonable stability of prices. Neither unheeded inflation nor substantial and protracted unemployment is socially acceptable. It was frequently pointed out to the Committee that prolonged or rapid inflation would sooner or later result in a bust and bring about serious unemployment. Consequently the modern state, and the industrial and labour groups within it, have a heavy responsibility to pursue policies which are designed to make our basic economic objectives compatible with each other.

Creeping Inflation

The experience of the post-war period and recent social and economic trends have caused some observers to think that it is not possible to maintain high levels of employment and an adequate rate of economic growth without at least a mild degree of continuing or "creeping" inflation. These persons point to the increasing concentration of business, the growth of powerful trade unions, the provision of floor prices for agriculture, the rising trend of government expenditures and taxes, and the limited tolerance for any degree of unemployment however small or temporary. It is argued that under these circumstances prices in key sectors of the economy are inflexible against decline, are "administered" and will only move upwards; wage settlements will exceed increases in productivity and will therefore impose a continuing upward "cost push" upon industry; necessary adjustments in the economy will be frustrated by immediate and large increases in government expenditures. It is maintained that under these conditions the highly organized claimants and conflicting interests in the society can resolve their differences only by coming to agreements which involve constantly rising prices and costs, and constantly expanding government outlays. It is further contended that if these upward pressures are effectively resisted by monetary and fiscal policy, unemployment and stagnation would result. Therefore, a "creeping" inflation of prices of say 2 to 3% a year is argued to be the lesser of two evils and is a consequence that should and must be accepted.

These arguments seem to provide an easy and accommodating answer to what have always been fundamental problems in any society, old or modern. The difficulty always with such accommodating answers is that they rest on assumptions which are neither explicitly explained or proved. Basically they are founded on what has been described "a tantalizing fascination in the illusion or greater wealth created by rising prices." It is a fascination which has always caused men and governments to try to find solutions to difficulties in some new and novel method of inflation. It assumes, of course that irresponsibility and almost complete inflexibility in our economic affairs is inevitable in our modern society. It assumes also, that the degree of continuing inflation envisaged will in fact guarantee high levels of employment and that the inflation can in reality be contained within the moderate limits contemplated.

Nearly all of the witnesses who gave evidence to the Committee commented on this doctrine of "creeping" inflation and discussed the assumptions on which it is based. The great majority were opposed to this doctrine as a basis for policy. Nor was this doctrine regarded with resignation or impotence.

The spokesman for the Canadian Chamber of Commerce told the Committee "that the Chamber of Commerce feels it could not as a policy tolerate even a creeping inflation. All you can say about creeping inflation is that it is not as dangerous and it is easier to adjust to than a more rapid inflation; but if you are going to erode the dollar the long-run effect is the same. Even the creeping variety has the effect of creating a psychological impact on people which spreads, and people are going to do the very things you don't want them to. In other words, they are going to assume a trend and take actions that will tend to bring about that trend". The Interprovincial Farm Union Council in its brief explained that "The farmer, unlike his counterparts in most other industries, is not in a position to increase his prices to the consumer to compensate him for rising costs of production which are the result of inflationary trends. We cannot increase the price of our wheat and grains in export markets and will be fortunate if these do not continue to decline. Thus even 'creeping inflation', over a period of time, has serious repercussions on the financial stability of farming operations". The submission of the Saskatchewan Wheat Pool emphasized that "In the post-war

years, rising costs have become a serious problem for farm people... Farmers are particularly vulnerable to the pressures of inflation because they are unable to pass on their increased costs to someone else". Mr. R. M. Fowler, President of the Canadian Pulp and Paper Association, told the Committee "For many reasons, the Canadian pulp and paper industry fears inflation and believes in price stability... If the situation over the next few years is one of slow or creeping inflation, it may well be that the impracticability of recovering cost increases in price will have a bad result for this industry and for Canada... It could have serious effects, on the long term competitive position of this industry in world markets". Mr. James Muir made the emphatic statement that "...over time it (a moderate dose of inflation) would increase the incidence of unemployment, reduce productive efficiency, undermine equity and incentive in the distributions of income. and so prevent Canada from attaining an appropriate rate of economic growth".

The Investment Dealers Association discussed the effect on saving ". . . continually rising prices—or the expectation of rising prices—stimulates spending and discourages the saving needed to finance the new and productive capital equipment on which a rising standard of living depends". Professor Knox commented on the psychological situation which would be created and its likely consequences. "But when you lay it down as an element in national policy that you are not only going to tolerate it if you cannot help it, but you are going actively to assist and to promote, if necessary, a rise in prices of several per cent a year, then it seems to me that you put the public under notice that this is going to happen; and it better begin to protect itself against it. When the public begins on a large scale to protect itself against inflation, your inflationary pressures rise and the keeping of it moderate becomes, I think, impossible." Mr. James E. Coyne, Governor of the Bank of Canada, stated his opinion to the Committee ". . . I do not believe there ever has been or ever will be creeping inflation for any length of time. I think it will either break into a gallop or lead to a collapse. . .".

Those who expect, or would accept, a situation of creeping inflation have suggested various devices which they argue would ameliorate or overcome some of its evils and inequities. They would facilitate and encourage arrangements for the escalation of otherwise fixed dollar payments and fixed dollar commitments according to some formula geared to the degree of inflation contemplated. Thus there would develop a vast system of more or less automatic adjustments in fixed dollar claims respecting salaries, wages, pensions, utility rates, interest, mortgages and other fixed investments, savings accounts, life insurance policies, annuities, agricultural prices, etc. etc., so that their real values are kept in line with the decline in the value of money. Even if enough electronic computers could be produced to make this untold number of calculations, the result would be merely a crude attempt to restore the *real* positions which would have existed under a much simpler and more direct policy of reasonable stability in the value of money.

Once such a system of escalations, hedges, and dodges is in full operation the whole purpose of the creeping inflation policy is gone. Once it is no longer possible for particular groups to gain at the expense of others, through the process of inflation, the policy loses its supposed virtue as a device for reconciling conflicting economic and social claims. Of course there would always be some who would try "to beat the game" (no one has shown how this could be avoided) in which case the escalation formulas would become an engine for converting the "creeping" inflation into a "galloping" inflation. If, in these circumstances, the gallop could be contained through appropriate monetary and fiscal policies as is sometimes claimed, then these policies could have been used effectively in the first place to maintain a reasonable stability in the value of money, with at least equally good results in respect of employement and economic progress. Furthermore, the

goal of reasonable stability in the value of money is a much more easily understood objective of public policy. In a free and democratic society any policy, such as creeping inflation, which gives rise to vast complications and uncertainties not easily comprehended, is a policy that cannot be soundly based.

The Existing Situation and the Fear of Inflation

There was virtually unanimous agreement among those who gave evidence to the Committee that there was no actual inflation at the present time, as indicated by the relative stability of the consumer price index over the past year. The problem rather is one of the possibility of renewed inflationary pressure as full capacity output of the economy is approached. It was emphasized that despite the encouraging recovery in business there was still unemployment and a good deal of unused capacity in industry. Consequently the present position was not one in which there are "too many dollars chasing too few goods." The output of goods and services can be increased further by a considerable amount before full industrial capacity is attained. Also, it was pointed out that the deficit position of the federal government has improved significantly since the last Budget and that the deficit is likely to be overcome in the relatively near future as revenues rise following continued improvement in business. This assumes, of course, that in the meantime expenditures will not be materially increased.

In spite of this reassuring picture, there is a widespread fear of inflation. It has been described as an "inflationary psychosis". This fear is said to have arisen from the experience of prolonged inflation during the post-war years, the continued increase in the cost of living and the costs of production during the recent recession, the further increase in government expenditures, the appearance of a large deficit in the federal budget, the rapid expansion in the supply of money associated with the problems of financing the federal deficit, and finally, the persistent talk in certain quarters about the inevitability of some form of inflation in the future, creeping or otherwise. This fear has expressed itself most prominently in the marked reluctance of the public to purchase bonds and other forms of fixed interest investments except at short term and sharply increased rates of interest. On the other hand there is a strong preference for stocks, mutual funds, an inflation-hedge properties. The Dominion Mortgage and Investments Association told the Committee that "Pressures are developing on our member companies to direct their investments away from their historically fixed interest channels to larger proportions of equity investments of one kind or another . . . this pressure has a tendency to reduce the amount of funds available for investment in fixed income securities."

Many witnesses emphasized to the Committee the dangers which are inherent in a widespread fear of inflation. The greatest danger lies in the possibility that this fear could in itself bring about the inflation which is feared. Mr. J. Douglas Gibson explained how this could come about and the consequences which could follow. " . . . there is the danger that fear of inflation will set the groundwork for a serious recession. Sooner or later stock prices may get so high in relation to corporate earnings and bond prices that a marked reaction may set in. People may suddenly realize that things are getting out of proportion. This is all the more likely if fear of inflation leads to ill-considered capital investment in some directions or to unnecessary accumulation of inventories."

It is a matter of vital concern that this inflation psychology be overcome and that confidence in the future value of money be made secure. This is an essential and urgent task in the battle against the threat of inflation. However, this task cannot be accomplished by some legerdemain or empty

exhortation. There must be, not only a clear statement of purpose, but, above all, there must be a positive demonstration by the authorities in day to day policies that inflationary actions will be avoided. This means the exercise, when necessary, of the required restraint in monetary and credit policies. It means restraint in the growth of government expenditures and the avoidance of deficits, especially when these are inflationary in their effects. However, these restraints cannot work smoothly unless there is also restraint in the pressures which can be exerted by labour, business and other groups. If these pressures are too great either politically or economically they can frustrate the efforts of the authorities and result in unemployment and stagnation.

Authoritative witnesses emphasized to the Committee that adequate tools of monetary and fiscal policy for the control of persistent inflation are available We can muster the will and determination to use them. With the necessary will there is no cause to fear that inflation is inevitable, especially in the present circumstances when the supplies of goods and resources are ample. In a free society public understanding and support are essential. It has been said the "monetary and fiscal policies must not only be intelligent, they must also be intelligible." To this end responsible bodies must be willing to make particular efforts to discuss and explain the issues involved and the aims which are sought. Your Committee hopes that its proceedings, the valuable evidence it has received, and this report will make a constructive contribution to this purpose.

To summarize, your Committee concludes that:—

1. Inflation is not inevitable.
2. We reject the doctrine of "creeping" inflation as in any way desirable for Canada.
3. The maintenance of reasonable stability of prices should be a basic aim of our economic policy along with our other aims for the achievement of high levels of employment and an adequate rate of economic growth.
4. Reasonable stability of prices is entirely compatible with and essential to the attainment of continued economic progress and high levels of employment.
5. Inflation constitutes a hidden tax which falls inequitably upon the public, with grave injustices upon those least able to protect themselves.
6. Inflation is harmful to our basic primary producers and weakens the competitive position of both our export and domestic industries.
7. Tools to contain inflation are available—what is necessary is the will and determination of the people and the authorities to use them.

Your Committee records its deep appreciation of the invaluable help received from its consultant and adviser, Dr. John J. Deutsch. He was uniquely fitted by his experience and qualifications to assist the Committee in its study and he has had the confidence of all members of the Committee.

All which is respectfully submitted,

C. V. EMERSON,
Chairman.

Appendix "A"

WITNESSES

F. A. Knox, B.A., F.R.S.C., Professor of Economics, Queen's University.

The Canadian Chamber of Commerce: Mr. Morgan Reid, Chairman, Executive Council. Mr. H. H. Edmison, Co-chairman, Public Finance and Taxation Committee. Mr. W. J. Sheridan, Assistant General Manager.

Mr. A. Ross Poyntz, President, The Canadian Life Insurance Officers Association, and President of Imperial Life Assurance Co. of Canada. Mr. E. C. Gill, President, The Canada Life Assurance Company. Mr. D. E. Kilgour, President, The Great-West Life Assurance Co. Mr. J. A. Tuck, Q.C., General Counsel, The Canadian Life Insurance Officers Association. Mr. David Kirk, Secretary-Treasurer, Canadian Federation of Agriculture.

Mr. W. T. G. Hackett, Assistant General Manager, Bank of Montreal, representing The Canadian Bankers' Association. Mr. G. Arnold Hart, President, Bank of Montreal. Mr. Neil J. McKinnon, President, Canadian Bank of Commerce.

Canadian Pulp & Paper Association: Mr. R. M. Fowler, President. Mr. A. M. Moore, Economist.

Sun Life Assurance Co. of Canada: Mr. E. R. Alexander, Vice President, Finance. Mr. J. W. Popkin, Economist. Mr. W. J. McCarthy, Assistant Treasurer.

The Canadian Metal Mining Association: Mr. V. C. Wansbrough, Vice President & Managing Director; Mr. H. J. Fraser, Past-President and Director. (President, Falconbridge Nickel Mines Ltd., President, Ventures Ltd.); Mr. J. R. Bradfield, President. (President, Noranda Mines Ltd.); Mr. W. S. Row, Vice President. (President, Kerr-Addison Gold Mines Ltd.); Mr. A. J. Anderson, Director. (President and Managing Director, Giant Yellowknife Gold Mines Ltd.)

The Investment Dealers' Association of Canada: Mr. N. J. Alexander, Deputy General Manager, James Richardson & Sons, Winnipeg; Mr. M. D. Cox, Director, Anderson & Co. Ltd., Toronto; Mr. G. Cretzianu, a Vice President, Greenshields & Co., Montreal.

The Railway Brotherhoods: Mr. H. E. Campbell, Secretary; Mr. John Weldon, Economic Adviser.

Canadian Labour Congress: Mr. Claude Jodoin, President; Mr. R. Bell, Assistant Research Director; Mr. Eugene Forsey, Director of Research.

Mr. James Muir, Chairman and President, Royal Bank of Canada. Mr. J. Douglas Gibson, General Manager, Bank of Nova Scotia.

The Canadian Manufacturers' Association: Mr. J. C. Whitelaw, General Manager; Mr. J. A. Calder, Past President, C.M.A. (Vice President and Treasurer, Imperial Tobacco Co. of Canada Ltd.); Mr. John D. Pattison, Economist, Imperial Oil Ltd.; Mr. Ira G. Needles, Chairman, Tariff Committee, C.M.A. (Chairman of the Board, B.F. Goodrich Canada Ltd.).

The Dominion Mortgage & Investments Association: Mr. A. H. Lemmon, President.

Manitoba Pool Elevators: Mr. W. J. Parker, President. Interprovincial Farm Union Council: Mr. A. P. Gleave, Chairman.

Mr. L. D. Byrne, Edmonton, Alta.

Mr. Paul Emile Charron, Assistant Secretary, Federation des Caisses Populaires Desjardins, Levis, P.Q.

Mr. G. L. Harrold, President, Alberta Wheat Pool.

Mr. C. W. Gibbings, Second Vice President, Saskatchewan Wheat Pool.

Mr. James E. Coyne, Governor of the Bank of Canada.